Towards a Stakeholder-Oriented Framework on Value Creation and Allocation

Julien Jourdan
HEC Paris
jourdan@hec.fr

Ilze Kivleniece
INSEAD
ilze.kivleniece@insead.edu

Anita M. McGahan
University of Toronto
amcgahan@rotman.utoronto.ca

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** Authors listed in an alphabetic order*

ABSTRACT

Classical value-based approaches in strategy conceive of firms as being driven towards value capture: firms are expected to appropriate the value they co-create with stakeholders to the maximum extent of their bargaining abilities. This conception is increasingly challenged by stakeholder research arguing that maximizing value capture may undermine a firm's potential for value creation. Considerable theoretical ambiguity remains in stakeholder research as to how much value firms should capture, under which conditions, and which stakeholders should appropriate part of the firm's co-created value. To make progress on these questions, we highlight differences in core assumptions that explain seemingly inconsistent prescriptions across the value-capture and stakeholder perspectives in strategy. Discrepancies can be reconciled, we argue, when one recognizes that how much value a given stakeholder co-creates is, under conditions we explore, a function of how much it receives. In this view, the firm can be conceived as a stakeholder value allocation mechanism driven towards value creation. By shifting the focus from value capture to value allocation, the proposed theoretical framework addresses critical questions in the emerging new stakeholder literature.

INTRODUCTION

On January 25, 2018, Airbnb publicly announced that it would pursue "serving all stakeholders" rather than only investors. The firm proclaimed that becoming a "stakeholder corporation" is the best way to build value over the long term (New York Times, 2020). The statement attracted considerable attention because such initiatives remain rare despite widespread interest. While the stakeholder literature has been burgeoning since the early 1980s, most firms remain governed according to principles and rules that give *de facto* primacy to their shareholders. What makes corporations slow to fully embrace much touted stakeholder principles?

The reluctance is understandable when considering the critical conceptual and practical questions the stakeholder model raises for strategy theorists and practitioners. A chief concern relates to conceptual ambiguities around value capture in stakeholder research. Contrary to established value capture theory in strategy (Brandenburger & Stuart, 1996; Gans & Ryall, 2017), the stakeholder perspective generally cautions against unchecked or maximum value appropriation by a firm. The argument is that strategy implies forming and maintaining reciprocal stakeholder relationships, with the sharing of economic value to legitimate stakeholders prescribed in excess or beyond what is needed to secure and retain their willful participation in the firm's value creating activities (Bridoux & Stoelhorst, 2016; Garcia-Castro & Aguilera, 2015; Harrison, Bosse, & Phillips, 2010). For stakeholder theorists, value capture is subordinate to overall value creation in firm-stakeholder networks. Stakeholder research–notably, the recent new stakeholder theory (McGahan, 2021)–highlights the critical role that stakeholder management plays in enhancing value creation. In this view, a firm's value creation potential can be "unlocked" when stakeholders are appropriately enfranchised and treated fairly

(Donaldson & Preston, 1995; Freeman, Harrison, & Wicks, 2007; Kaplan, 2019; Klein, Mahoney, McGahan, & Pitelis, 2019).

These arguments thus expose a seemingly inconsistent prescription within the main research traditions in the field of strategic management that view value appropriation or capture as the end goal (Durand, Grant, & Madsen, 2017). From a stakeholder perspective, value creation is the means to reach that end and can be impeded by un-checked value capture. From a classic value-based perspective, strategy sets the stage for optimizing value creation through demand-supply relationships with an aim to enable a firm to capture as much of the value as possible given its persuasive or bargaining abilities (Brandenburger & Stuart, 1996; Chatain, 2010; Chatain & Zemsky, 2011; Gans & Ryall, 2017; Ryall, 2013). In this latter tradition, value capture is a related yet analytically distinct step that is separate from value creation. Contrary to the stakeholder-based view, a firm is expected to maximize value capture; that is, to appropriate the value co-created with the network of stakeholders to the maximum extent of its bargaining ability.

While contesting the main prescription of established value-based strategy models–i.e., to maximize value capture–the stakeholder perspective offers limited guidance on how much value firms should share with stakeholders, and the conditions under which such sharing might be beneficial for firms and its broader set of stakeholders. Nascent work on stakeholder-based value creation and capture underlines that stakeholder appropriation creates tradeoffs for the firm (Garcia-Castro & Aguilera, 2015) and suggests that firms may primarily target individual stakeholders who intrinsically care about fairness (Bridoux & Stoelhorst, 2006). Yet, it remains unclear which stakeholders ought to benefit from firm's benevolence when stakeholder motives are heterogeneous, unobservable or hard to discern (Bridoux, Coeurderoy, & Durand, 2011; Bridoux & Stoelhorst, 2014; McGahan, 2020)–which is likely to be the case in most settings.

Beyond the parameters of value sharing and of the boundaries on stakeholder claims (Barney, 2018), the emerging stream of work in the new stakeholder theory raises fundamental questions about the very nature of value capture. This stands in contrast to traditional models in strategy with roots in neo-classical economics, which offer clarity on why firms capture value and which players receive value in the end. The classical argument is that firms accumulate value in the form of profits upon which their shareholders have a residual claim. Such clarity however dissipates when one adopts a stakeholder perspective. As Barney (2018) points out, "dividing profits among multiple stakeholders will always be difficult." Holding value creation constant, value sharing is essentially a zero-sum game: the value captured by one set of stakeholders is redistributed among another set of stakeholders. But what happens when the claims on profits by shareholders–one type of stakeholder–are not exercised directly, but rather are imputed to stock price? And in what order should enfranchised stakeholders make claims on value? These and other questions reflect a fundamental tension underlying the question on how, in the absence of clear guiding principles, should residual profits be divided among stakeholders (Friedman, 1970).

Addressing these questions and conceptual tensions is not only paramount to the further theoretical and analytical development of stakeholder theory within the broader field of strategic management scholarship, but a necessary precondition, we believe, for the rise of alternative forms of governance arrangements such as stakeholder corporations. To that purpose, we examine in this paper two prominent streams of strategy research that have both provided influential insights but have not yet been fully integrated. We focus on value capture and stakeholder theories with an aim to further the emerging conversation between these two important theoretical traditions (Cabral, Mahoney, McGahan, & Potoski, 2019; Garcia-Castro & Aguilera, 2015). On this basis, we propose a theoretical framework that we hope advances the

existing value-based discourse in stakeholder management and tackles tractable questions of economic value creation and distribution which lie at the heart of strategic management scholarship (McGahan, 2020).

We begin by carefully examining and disentangling the theoretical assumptions underlying both the classic value capture and stakeholder perspectives. Compared to the value capture theory, the new stakeholder theory assumes bounded self-interest, limited information availability, restricted bargaining, and repeated exchange. These assumptions provide the foundations for the central argument in the new stakeholder theory that stakeholder management may unlock potential for value creation at the firm-stakeholder level that cannot be specified ex ante but that can bear crucial implications for value creation ex post (Harrison et al., 2010). Such an argument has two critical implications. First, it calls for introducing the notion of stakeholder value *allocation*: the firm may allocate value to a stakeholder beyond what would be needed to maintain its participation in the firm, i.e., beyond what a stakeholder may expect as a result of classic value-based bargaining[1]. Second, it means that, from a stakeholder perspective, value creation and value allocation are not two distinct sequential analytical steps (see Figure 1). Rather the two are closely interrelated: how much incremental value a given stakeholder may co-create is a function of how much extra value the firm allocates to that stakeholder, with the analytical relationship between value creation and capture intertwined in ways that scholars of strategic management have not yet fully considered.

Identifying the key assumptions behind two established theoretical perspectives helps us then delineate boundary conditions on the theoretical mechanisms laid out in the rest of the

[1] The terms "value capture" (or appropriation) and "value sharing" reflect different underlying assumptions about the nature of the firm, notably the assumption in value-capture models that shareholders hold a unique or priority claim on a firm's economic profit (not supported by the new stakeholder theory). In our framework, we use the term "allocation" rather than "sharing" to denote the underlying assumptions that firms strategically allocate value to selected stakeholders and only retain value on a temporary basis.

paper. When the assumptions of classic value capture models are met (that is, when stakeholders are unboundedly self-interested, have unlimited information, enjoy unrestricted bargaining, and have fixed-term interactions with the firm), then no extra value creation is expected to be unlocked at the firm-stakeholder level by firm-led value allocation. However, when stakeholder theory's assumptions are met, stakeholders are "value sensitive" in the sense that they co-create additional incremental value when the firm ex ante allocates (or credibly commits) extra value to them. This happens in each period of their engagement with the firm, as stakeholders make an assessment of their contribution in a process that we describe as intertemporal value "accounting". This accounting allows stakeholders to assess the potential returns from staying within the firm's value system versus altering that contribution or leaving to redeploy resources and capabilities in an alternative system.

Our proposed stakeholder-based value allocation and creation framework–which builds on the emerging insights from the new stakeholder theory–thus conceives of the firm as a dynamic, intertemporal value allocation mechanism across stakeholders. The framework is fundamentally dynamic as it is built on the ideas that (i) the firm allocates value to a stakeholder, (ii) the firm then retains a share of the value co-created with that stakeholder, (iii) the firm accrues a temporary value pool that can then be reallocated to other stakeholders in order to induce further value creation. In the proposed framework, retaining value is not the end game, but a transitory step in the overall total value creation and orchestration function of the firm (Mahoney, McGahan, & Pitelis, 2009). A key implication of this framework is that an optimal firm-level strategy means allocating the value with the most value-sensitive stakeholders, with the aim of unlocking the highest possible value creation potential across the firm's value system (i.e. the total value created by the system of stakeholders).

By shifting the focus from value capture to value allocation, the proposed theoretical framework offers guidance on the extra value that firms should allocate (or not) under conditions of value sensitivity to focal stakeholders. It also opens a theoretical path for further work elucidating how residual profits may be divided among stakeholders without resorting to non-strategic parameters, such as political distribution mechanisms. The model offers directions for designing strategies that maximize the value created across the overall firm-stakeholder network or system (Mahoney et al., 2009), which inform the value allocation that a given firm subsequently undertakes to shape subsequent stakeholder decisions about continuity of participation in the system. In other words, the proposed approach supports firms identifying and acting upon the boundaries of stakeholder claims (Klein et al., 2019; McGahan, 2020).

In essence, the aim of this paper is to advance understanding of value allocation and value creation in stakeholder corporations. The analysis contributes to a growing stream of research that calls for a closer integration and a joint consideration of stakeholder and value-based perspectives in the field of strategic management (Chatain & Plaksenkova, 2019; Harrison et al., 2010; Quelin, Cabral, Lazzarini, & Kivleniece, 2019). We build on and integrate work in the new stakeholder theory that combines value-based thinking with considerations of a broader range of firm-stakeholder relationships (Garcia-Castro & Aguilera, 2015; Tantalo & Priem, 2016), recognizing heterogeneity in both resources and claims on value (Bridoux et al., 2011; Cabral et al., 2019; Chatain & Plaksenkova, 2019; de Bakker & den Hond, 2008). The paper addresses the implications of such heterogeneity for firm boundaries (Klein et al., 2019; McGahan, 2020) as well as value outcomes (Barney, 2018; Garcia-Castro & Aguilera, 2015). The framework opens promising directions for further research. Specifically, we highlight and discuss in this paper five important research areas on which the proposed framework sheds new light, with suggestions for further research on value-based strategies under uncertainty, value-

based strategies involving multiple stakeholders, the role of co-specialization, dynamic views on firm-stakeholder ties, and optimal value allocation strategies.

The rest of the paper is organized as follows. We begin with a review of stakeholder and value capture arguments in the existing literature and highlight differences in key assumptions. The next section introduces the conceptual framework and explore its boundary conditions. We conclude with a discussion of potential contributions of our work to the new stakeholder literature and the avenues for future research.

THEORETICAL BACKGROUND

Stakeholder research

Central to the new stakeholder theory is the argument that a firm may unlock additional value creation when allocating "more resources to satisfy the needs and demands of its legitimate stakeholders than would be necessary to simply retain their willful participation in the firm's productive activities" (Harrison et al., 2010). Stakeholders, in this view, are the essential actors that bind the resources to the focal organization, thereby permitting firm-specific value creation (McGahan, 2021). The firm itself is at the center of a stakeholder network through which goods and services as well as various organizational resources circulate. These resources include information, talent, influence and money (Barringer & Harrison, 2000; Harrison et al., 2010; Rowley, 1997).

The stakeholder management argument is traditionally associated with the instrumental branch of stakeholder theory (Jones, Harrison, & Felps, 2018; Weitzner & Deutsch, 2019). Work in that tradition notably posits that firms may attain superior performance when they actively "manage for stakeholders;" that is, when they allocate value and decision-making to stakeholders (Walsh, 2005). This view stands in contrast with the relational (or normative) branch of stakeholder theory, which views pro-stakeholder strategies as strategic ends in themselves rather

than means to enhance firm performance (Freeman, Wicks, & Parmar, 2004). Both instrumental and relational arguments incorporate the notion that excess value allocation to stakeholders is (or should be) intentional by a firm and should go beyond what a market exchange-based rationale might require (Bridoux & Stoelhorst, 2016; Harrison et al., 2010).

Building on these insights, the focus of the new stakeholder theory is on the very core of the relationship between stakeholder involvement in value creation and underlying claims on value (Amis, Barney, Mahoney, & Wang, 2020; Barney, 2018; McGahan, 2021). Insights from this literature shed light on crucial mechanisms, such as trustworthiness and a history of fair exchange interactions, that permit firms to strengthen the prospects of value creation through future, yet-to-be revealed opportunities. It recognizes that, under a fair, trust-based exchange, stakeholders are more likely to share nuanced information about their utility function, allowing the firm to make more informed resource allocation decisions and better deal with unanticipated changes in the environment (Harrison et al., 2010). Fairness in exchange may activate reciprocity in value generation. Firms that are expected to be distributionally fair or generous may generate more value through positively reciprocal behavior of stakeholders (Bosse, Phillips, & Harrison, 2009). From stakeholder theory, thus, the way a firm treats its stakeholders–and critically, how much value it shares with them *ex post*–enables or hinders value creation though firm-stakeholder relationships. This view has received growing empirical support: for instance, Henisz et al. (2013) find that gold mines that offered increased stakeholder support had higher financial valuation compared to their competitors.

At the same time and while advancing these crucial insights, further theoretical formalization of value-based mechanisms in current stakeholder theory nevertheless remains constrained by several limitations. First, most studies retain focus on value creation, highlighting the potential for added value creation that may be realized through the active management of

stakeholders (Harrison et al., 2010), and the recognition of synergies that may arise across stakeholders (Tantallo & Priem, 2016). While new stakeholder theorists are concerned with the fundamental questions of stakeholder enfranchisement (Klein et al., 2014, 2019), studies so far have not fully addressed the conceptual issues related to value capture implied by stakeholder engagement. Notably, the stakeholder perspective lacks a comprehensive treatment of how residual profit, if any, should be shared among multiple heterogeneous stakeholders (Barney, 2018). Second, with few important exceptions (Chatain & Plaksenkova, 2019; Garcia-Castro & Aguilera, 2015; Tantalo & Priem, 2016), there is little formalization of the underlying mechanisms that may enable value creation with stakeholders. As Tantalo & Priem argue (2016), we lack a deep understanding of how stakeholder theory can be used by managers for improving firms' value-creation strategies, and specifically, of conceptual mechanisms that permit to "activate" stakeholder-based value creation. Third, and equally crucial, we have little understanding of variations in the potential for value creation across stakeholders. Arguments drawn from behavioral economics and social psychology suggest that stakeholders may have various motives. One group may be so-called "reciprocators," while another may respond opportunistically to firm-level value redistribution (Bridoux and Stoelhorst, 2014). Because motives are generally unobservable, we lack conceptual tools for identifying stakeholder motivation ex ante. This in turn impedes analytical modeling that distinguishes when specific stakeholders are likely to respond favorably to pro-stakeholder oriented firm actions and deliver higher value contribution. Addressing this gap is important because an indiscriminate treatment may endanger overall value creation in firm-stakeholder networks. For instance, if certain primary stakeholders are not willing or able to enter into a sustainable relationship with the firm, reveal their utility function, or make firm-specific investment, then allocating value to them may

have no or only a marginal effect on overall value creation, and potentially impair other stakeholders in creating value across the firm's value system.

Recent studies offer analytical advances on accounting in a dynamic way for the ways in which multiple stakeholders interact to enhance mutual value creation and appropriation (Chatain & Plaksenkova, 2019; Garcia-Castro & Aguilera, 2015). Studies shed light on methods to measure empirically how value is distributed across stakeholders (Lieberman, Balasubramanian, & Garcia-Castro, 2018). Advances in the new stakeholder theory point to theoretical constructs behind stakeholder-related value creation mechanisms (Bosse & Coughlan, 2016; Bosse et al., 2009). Yet the field continues to lack an integrated approach for understanding how value creation and capture are analytically interlinked in firm-stakeholder ties, and under which specific conditions stakeholder management creates value and enables (or restricts) its appropriation by a firm. As we argue in this paper, the crucial tension between value sharing and value creation is evident when one contrasts stakeholder theory arguments with more recent developments in value capture theory. However, these tensions have not yet been explored in an integrative manner across these two fundamental research streams.

Value capture research

In contrast to stakeholder theory, which considers a broad range of actors participating in value creation, the original perspective behind value capture theory was devised to understand how firms create and capture value predominantly in vertical chains of relationships (Brandenburger & Stuart, 1996; Brandenburger & Stuart, 2007). In the value capture tradition, *value creation* is formally defined as the difference between the willingness-to-pay of a buyer and the opportunity cost of a supplier at the transaction level. A firm's ability to capture value is bounded by its *added value*–defined as the difference between the value created with the firm in the system vs. the value created with the firm absent from the system. Both competitors and complementors

shape the outside opportunities of buyers and suppliers, and thus compel the firm to add value. In value capture models, the share of added value that a firm may capture depends, in turn, on bargaining between the firm and its buyer and/or supplier. Bargaining is important because the added values of all stakeholders in the firm's value system accumulate to more than the total value co-created by the stakeholders. In such a situation, the total value co-created is insufficient for all stakeholders to capture their added values. The added-value condition creates an upper boundary on the value that each stakeholder can capture, but the condition normally is not binding. Firms may influence their bargaining ability and thus capture value, for instance, by creating horizontal ties (such as partnerships) with the providers of substitutes (e.g., competitors) and complementary goods and services (Nalebuff, Brandenburger, & Maulana, 1996). Initial value capture models focused on cooperative situations in which enfranchised stakeholders interact first to create value and then bargain for its appropriation (Brandenburger & Stuart, 1996). Subsequent work extends these insights to bi-form games in which stakeholder engagement is established in a non-cooperative model, followed by value creation and capture in a cooperative model (Brandenburger & Stuart, 2007). Recent extensions have broadened the approach to account for value networks, demonstrating how the share of added value appropriated by a firm is bounded as a maximum by the value it creates (unless bargaining is restricted), and as a minimum by the value it would create within the best alternative value network (Gans & Ryall, 2017).

The value capture approach is appealing for conceptualizing firm-stakeholder interactions for several reasons, in addition to modelling tractability. One of the strengths of classic value capture models is to disentangle value creation and value capture as two distinct analytical steps that tend to be confounded in stakeholder studies (Garcia-Castro & Aguilera, 2015). In value capture models, suppliers and buyers–i.e. central stakeholders–are treated symmetrically. The

definition of value creation permits the analyst to parameterize value creation analytically. Asymmetries between the firm and other players allow the focal firm to add value to the stakeholder system. In this approach, the process of value capture is conceptualized as following value creation intertemporally, and is a function of the added values and bargaining abilities of the various stakeholders in the system (Brandenburger & Stuart, 1996; Gans & Ryall, 2017).

Besides clearly separating value creation and value capture, the value capture approach also adds analytical clarity by defining conceptual bounds on the amount of value that any individual actor may capture in the value network. The concept of "added value" delineates how much each player *may* (but not necessarily *be able to*) capture: any given player may not claim more value than what it adds to the focal network (upper bound) and may not receive less that its (highest) added value in alternative value networks (lower bound) under certain specific conditions, such as unrestricted bargaining. Within these bounds, value capture models posit that a firm captures the highest possible share of the created value according to its bargaining abilities.

The value capture approach thus offers a useful starting point for conceptualizing how value is created and captured in stakeholder systems. The most recent works place firms at the center of a value network, a notion that is very much consistent with a stakeholder perspective (Harrison et al., 2010). However, existing value capture theory offers a contrasting prescription to many studies in the stakeholder perspective: while the latter focuses on and even prescribes the allocation of value to stakeholders to promote stakeholder engagement in a loosely specified way, the focus of the value-capture perspective is on maximizing the value captured by the focal firm within the bounds of preserving the stakeholder system, especially given the outside options available to non-firm stakeholders. In this paper, we examine and point to these discrepancies as arising from rather strict assumptions in the traditional value capture perspective that fail to

accommodate central arguments in stakeholder theory. Specifically, the idea that stakeholder management may unlock unforeseen value creation potential is foreign to classic value capture models, which incorporate the underlying assumptions that self-interested actors enjoy full information and unrestricted bargaining and do not interact repeatedly. In what follows, we examine these and other critical assumptions underlying value capture research, and highlight the underlying divergences with stakeholder research, and particularly, the emerging new stakeholder theory.

CORE THEORETICAL ASSUMPTIONS

Both the stakeholder and value capture streams of research address fundamental questions of value creation and distribution that are central to modern conceptualizations of strategic management. However, the two perspectives have yet to converge in their core prescriptions and establish a closer dialogue (Cabral et al., 2019). To that end, we identify and review four key assumptions that, in our view, require revisiting and clarification to integrate the two perspectives and to open a way for reconciling their seemingly opposing prescriptions: the nature of actor interests, information availability, nature of bargaining, and temporal horizon. We briefly discuss their underlying implications for the nature of the value flow and the analytical relationship between value creation and capture (see Table 1 for an overview of main differences in key assumptions, and implications between classic value capture and stakeholder research).

Insert Table 1 about here

Reciprocity versus Self-interest

One of the central assumptions behind value creation and capture deals with the nature and extent of self-interest in economic actors (i.e., stakeholders and a firm). The issue is the degree to which actors attempt to maximize their shares of value captured in an exchange at the expense of

exchange partners. Interestingly, the assumption of self-interest by underlying economic actors is adopted under both the stakeholder and value capture perspectives. Self-interest is consistent not only with the traditional value capture theory, but also with the foundational views in stakeholder theory which recognize each stakeholder as a fundamentally rational actor (Freeman, 1994). Recent research in the new stakeholder theory emphasizes that reciprocity can arise as a mechanism of self-interest that may lead rational actors to act altruistically (Bosse et al., 2009). Similarly, recent stakeholder studies have emphasized that stakeholder experiences of fairness may have a strong influence on how the stakeholder accounts for the value achieved in an exchange (Bridoux & Stoelhorst, 2014; Fehr & Gachter, 2000; Fehr & Schmidt, 1999; Long, Bendersky, & Morrill, 2011).

Increasingly, the new stakeholder theory suggests that economic actors tend to pursue a *bounded self-interest,* which is defined as the maximization of one's own utility conditional on considerations of fairness (Bosse et al., 2009). As Bosse et al. (2009: 449) argue, this assumption "does not suggest that people do not seek to maximize their utility; it suggests people seek to maximize their utility while conforming to the norm of *reciprocity*." As we highlight in our proposed conceptual framework, adapting such a bounded self-interest assumption carries important implications for value creation and allocation mechanisms, particularly in situations in which firms and stakeholders interact repeatedly. In other words, while traditional value capture approaches that rest on assumptions that actors will act self-interested may have descriptive validity in fixed horizon game settings, the introduction of the assumption of bounded self-interest becomes necessary in stakeholder-based models that consider repeated exchange between stakeholders and a firm.

Nature of Information Availability under Uncertainty

Another core assumption crucial to both the value capture and stakeholder perspectives relates to the accessibility of information under uncertainty. Traditional value capture approaches in strategy rely on the assumption that actors in an exchange possess complete (or at least symmetric) information *ex ante* on the alternative options for exchange as well as on *ex post* outcomes of value co-creation within the given game (Brandenburger & Stuart, 1996; Gans & Ryall, 2017). In other words, all economic actors are assumed to be able to clearly identify both alternatives outside the exchange as well as the value generated and captured within the exchange. However, the reality of exchange in most of firm and stakeholder interactions may impose considerable departures from modelling environments that assume there is no uncertainty (which, in essence, means that every player has the *same* level of uncertainty) (McGahan, 2021). We argue that stakeholder-oriented value theory demands relaxing the assumption of perfect information availability, given both fundamental uncertainty surrounding exchange as well as the bounded rationality of economic actors, which implies their restricted understanding of options and expected outcomes in their environment (Daft & Weick, 1984). Moreover, we also suggest departing from the implicit assumption of symmetric information assumed in most value capture models towards a notion of important information asymmetries that are increasingly argued to permeate firm-stakeholder relationships (Crilly, Zollo, & Hansen, 2012; Hill & Jones, 1992).

Restricted versus Unrestricted Bargaining

Closely related to the information availability is the third core assumption which refers to the nature of bargaining in firm-stakeholder ties. Unrestricted bargaining, which is integral to the classic value capture theory, implies the existence of well-defined, feasible options outside of the given "game" that are well-known to stakeholders (Brandenburger & Stuart, 1996; Brandenburger & Stuart, 2007). The unrestricted bargaining assumption implies that all players know the form of the game and have equal and unrestrained access to each other and to other

players in negotiations. Insights from stakeholder research, however, suggest that the assumption of unrestricted bargaining in the mainstream value capture models is not applicable in the canonical situation (Ross, 2018). While crucial for tractability in value capture modeling, such characteristics are unlikely to hold in environments with stakeholder and firm-specific co-specialized resource investments, information asymmetries and imperfectly enforceable property rights all of which reduce stakeholder outside options by restricting movements (Asher, Mahoney, & Mahoney, 2005; Klein, Mahoney, McGahan, & Pitelis, 2012). Recent work in the value capture literature suggests the pervasiveness of market "frictions"(Mahoney & Qian, 2013) such as significant search and switching costs within the vertical supply chain and beyond (Chatain & Zemsky, 2011). These frictions significantly limit the abilities of stakeholders to access and act on external opportunities, and thus this research calls into question the validity of unrestricted bargaining as an assumption in research on value outcomes. Furthermore, traditional value capture approaches incorporate a clear "who's in and who's out" approach to representing relevant stakeholders–a simplification that does not reflect the conditions that shape interaction among imperfectly enfranchised stakeholders and in settings with imperfectly allocated property rights (Klein et al., 2019), such as public or social goods. Recent works from the new stakeholder theory increasingly demonstrate that instances and conditions arise in which vulnerable stakeholders may not possess the ability to exercise fully their bargaining power (Coff, 2010). Moreover, some stakeholders in a specific situation are bound to have more bargaining strength than others (Kaplan, 2019b) with stakeholder bargaining positions affected by limited external opportunities or certain resource-based restrictions. Thus, paradoxically, the assumption of symmetric access by stakeholders to outside options in traditional value capture models is incompatible with the assumption in these models of asymmetries in added value. Value capture

models are yet to acknowledge the inherent contradictions between unrestricted bargaining and value outcome asymmetries they model.

In contrast, the stakeholder perspective promotes the idea that stakeholders are unlikely to carry the capability to bargain without restriction. Furthermore, stakeholders are likely to be heterogeneous in their enfranchisement in the system (e.g., via contractual or decision rights), in their access to information, in confronting market frictions, and in opportunities for learning and acting upon external opportunities. In the framework that follows we explore the implications of relaxing the assumption of unrestricted bargaining in conceptualizations of stakeholder-oriented value creation and allocation.

Temporal Horizon of an Exchange

The fourth key assumption we identify as likely to drive key differences in prescriptions of established value capture theory in contrast to stakeholder theory refers to the temporal horizon of an exchange. While value capture models remain predominantly within fixed-term, independent exchange horizon, most stakeholder-oriented studies consider the implications of repeated, reciprocal exchange.[2] The latter perspective speaks directly to the insights in the new stakeholder theory suggesting that actor behavior is bound by reciprocal ties and imprinted by the past exchange via mechanisms, such as reputation (Asher et al., 2005; Bosse et al., 2009). Crucially, exchange in single, fixed term versus repeated temporal horizons is likely to be associated with fundamentally different value creation and distribution mechanisms and outcomes. This points out to an important temporality issue that is not considered by the classic value capture models: firm-stakeholder interactions where the full benefits and costs of

[2] We note that temporality aspects appear already in the original Brandenburger and Stuart (1996) model. To the extent there may be multiple transactions separated in time even in the simplest buyer-firm-supplier chain, the multiplicity of such transactions will bear on the value creation and capture in each individual “game”. To our knowledge, problems associated with this variation have not been discussed in the associated literature and present interesting avenue for further research.

transactions are interdependent and yet removed in time. This intertemporal distance opens the unfolding of stakeholder relations subject to various types of uncertainty. As a result, the full unfolding of expectations of value capture, the actualization of value creation, and the allocation of value is embedded in a repeating cycle of exchange over time. Such time-based path dependencies imply successive resolution of uncertainty and information asymmetries with differential implications for any given stakeholder and the firm. Understanding the entirety of this process, we argue, requires a dynamic perspective.

In sum, we posit that four crucial assumptions–pertaining to the nature of information availability under uncertainty, bargaining, exchange horizon and actors' interest orientation (self-interested vs bound by reciprocity)–may underlie the divergent prescriptions regarding value creation and distribution across the new stakeholder theory and established value capture perspectives. Revisiting these assumptions, as we propose in this paper, leads to important insights into the underlying value flow and the analytic relationship between value creation and capture. In particular, as we argue below, the 'maximal value flow' identified by traditional value capture models may not consider the opportunities arising from reciprocal exchange in which some stakeholders may be vulnerable due to lack of information, access to outside options, and bargaining capabilities. This, we argue, alters fundamentally both value creation (leading to suboptimal total value) as well as value capture outcomes for individual players (e.g., firms), opening the possibility of certain players capturing more value than what they create through a form of stakeholder value expropriation. Moreover, relaxing the assumptions that prevail in established value capture theory also raises the theoretical possibility that firms allocate value beyond what would be expected to keep stakeholder engagement in the exchange (as suggested by recent works in the new stakeholder theory). Because such value-based inducements are not considered (nor theoretically permitted) by mainstream models focused on

value *capture* by firms, we argue–building on the perspective of new stakeholder theory–that the alternative construct of value *allocation* is an essential component of a comprehensive framework for understanding how value is created and distributed from a dynamic stakeholder-firm perspective.

VALUE ALLOCATION AS A PRECURSOR TO VALUE CREATION

Relaxing assumptions in the value capture literature opens important opportunities for advancing and formalizing insights from the new stakeholder theory into a consistent body of theory. We propose a foundational theoretical framework that integrates insights from the new stakeholder theory with the value-based theory, introducing the analytical logic of value allocation and creation as distinct yet interdependent mechanisms. Our goal is to advance understanding of key mechanisms and interdependencies in firm-stakeholder value relations characterized by boundedly self-interested actors (i.e. firm and stakeholders), operating under limited or asymmetric information, restricted bargaining conditions, and temporally interdependent, repeated exchange.

Building on these insights allows us to advance on existing conceptualizations of value capture and account for a central insight in the new stakeholder theory, which is that overall value creation by firm is shaped by the allocation of value by the firm to each stakeholder.[3] In other words, we account for the possibility that allocating extra value to a stakeholder, beyond what would be required to retain its willful participation (according to predictions of the classic value capture models on mutual bargaining), may lead to additional value creation for both the firm and the stakeholder. Such a mechanism cannot be conceived under strict, established

[3] Allocations occur prior to the realization of value and are defined by credible commitments under incomplete contracting between the firm and stakeholders. The incompleteness arises from lack of full information about the creation of value that will occur subsequently. The arrangements that give rise to the allocation of value also define which stakeholders are enfranchised in the value that will subsequently be created.

assumptions in value capture theory. If the exchange is not repeated, the stakeholder has no opportunity to reciprocate. If the self-interest of the actors is not bounded by norms of reciprocity, the firm may not allocate value in the first place to a stakeholder without any form of expectation that the effort will be reciprocated. Absent information asymmetries and under unrestricted bargaining, any potential for incremental value creation residing in the firm-stakeholder relationship between the firm and the stakeholder can be known and accounted for through contractual exchange and market-based sorting mechanisms.

By allowing (ex post) value creation to analytically depend on (ex ante) value allocation by a firm, we significantly depart from the analytical approach of existing value capture models in at least two critical ways. First, we reverse the analytical logic of the model: under value capture logic, value creation precedes–analytically, if not temporally–value capture. By contrast, we account for the possibility that the share of created value that is allocated to a stakeholder may affect value creation. Second, we do not assume that firms *always* maximize individual value capture. Rather we allow for the possibility that a firm may choose to capture a lower share of value than what it may be able to capture when leveraging the full extent of its bargaining abilities. We conceive the amount of value that the firm leaves on the table as a form of *value allocation* to the shareholder. Accordingly, the resulting distribution of value is not a mere consequence of dyadic bargaining, as is implied under the classic value capture perspective, but also may result from the firm's deliberate value allocation strategy.

In the conceptual framework that follows, we illuminate a key mechanism through which, under certain conditions, a firm may strategically allocate extra value to certain stakeholders–i.e., beyond what would be required to maintain their participation in the firm–to unlock additional value creation.

Definitions

We define the key concepts in our proposed model by drawing upon the new stakeholder theory and recent value-based studies examining firm-stakeholder interactions. We conceive of a *stakeholder* as any individual actor that creates and captures economic value in its interactions with the firm (Garcia-Castro & Aguilera, 2015). Moving beyond the traditional categorizations of stakeholders (primary, secondary, internal etc.), we focus on what new stakeholder theory increasingly terms as "essential stakeholders", i.e. those stakeholders (groups or individuals) that bear resource-based contributions or impact in respect to firm's value creation activities, and are essential to a firm's survival–i.e. customers, financiers (including shareholders), suppliers, employees, and communities (Freeman et al., 2007; Priem, Krause, Tantalo, & McFadyen, 2019; Tantalo & Priem, 2016).

In defining *value creation,* we refer to both the original Brandenburger and Stuart (1996) conceptualization and the new stakeholder theory that accounts for the totality of benefits and costs, including the opportunity costs, accrued to the stakeholders from the economic activities conducted within the firm's value system (Garcia-Castro & Aguilera, 2015; Mahoney et al., 2009; McGahan, 2021). This deliberately inclusive view on value creation incorporates both pecuniary as well as nonpecuniary and moral cost/benefit implications and stands in contrast to the approach in value capture research. It enables an accounting of externalities and other hard-to-monetize yet genuine resource-based benefits and costs of exchange that are traditionally left outside economic value assessments (Mahoney et al., 2009).

With our focus on *value allocation*, as mentioned, we move away from the singular focus on value capture. In addition to analytical clarity, this brings a linguistic distinction to "value capture" label which suggests an antagonistic tension between the firm and stakeholders over appropriating value. However, we do not assume that bargaining is unimportant. Instead, in our proposed framework, the firm engaged with a particular stakeholder has the option to

strategically commit to increase the share of value allocated to the stakeholder, beyond what the latter would reasonably expect to obtain as a result of mutual bargaining (as per classic value capture tenets). The value co-created by the firm and the stakeholder is effectively shared between the two parties, yet the terms of such value distribution have a strategic component. As in traditional value capture models, the firm retains ex post a part of the value that has been created. Yet the firm's share of value is not merely "captured" for the benefit of shareholders–or any other predefined subset of stakeholders–as is customary in value capture models. Rather, the firm's share is reallocated to stakeholders to cultivate the potential for additional value creation subsequently–thereby enlarging the *overall* value created over time. This feature of the framework is line with emerging insights that conceptualize shareholders or capital providers as a set of actors among other stakeholders that participate in the value creation system orchestrated by the firm (Barney, 2018; Garcia-Castro & Aguilera, 2015). We illustrate the conceptual logic of stakeholder-oriented value mechanisms in Figure 1.

In sum, our proposed framework posits that the firm orchestrates the allocation of value across stakeholders in a dynamic way, rather than maximizing the fixed term value "captured" on behalf of a subset of stakeholders, such as shareholders.

Insert Figure 1 about here

This approach has important implications for the nature of the firm. In this paper, following the recent research in new stakeholder theory and governance studies, we define a *firm* as a legal construct represented by its management that binds resource contributions from different stakeholders under specific contractual arrangements (Blair & Stout, 1999; McGahan, 2021; Stout, 2012).

Theoretical framework

As a baseline, we consider a firm as at the center of a network of dyadic relationships with stakeholders. Initially, we assume that firm-stakeholder relationships are independent from one another. At the level of each dyadic tie, firm i co-creates value (v_{ij}) through its relationship with stakeholder j and retains an amount π_{ij} of the value v_{ij} that i and j co-create. At the firm-stakeholder dyadic level thus:

$$\pi_{ij} = \alpha_i \, v_{ij} \qquad (1)$$

where α_i is the share of value i retains. At a given a level of competition in both factor and product markets (i.e., holding v_{ij} constant), and (for the moment) assuming unrestricted bargaining by stakeholders, firm i claims a share of the value created by the firm-stakeholder relationship up to the upper bound α_{ij}^* ($0 \leq \alpha_i \leq \alpha^*_{ij}$). The maximum appropriation factor α_{ij}^* depends on i and j's respective bargaining abilities. This baseline model corresponds to the fundamental theoretical relationships modelled under established value capture perspective.

Now assume that, as suggested by the new stakeholder theory in particular, additional value creation may be "unlocked" under certain conditions through the relationship between firm i and stakeholder j. We denote γ_{ij} the potential value increment such that:

$$\pi_{ij} = \alpha_i \, v_{ij} \, (1+\gamma_{ij}) \qquad (2)$$

Note that when the conditions are not met for firm-stakeholder ij relationship to yield any value increment, then γ_{ij} is equal to 0. This case corresponds to the baseline value capture model of equation (1).

Stakeholder research suggests that a value increment γ_{ij} exists when the firm credibly commits and binds itself to allocate value to induce stakeholder value creation beyond what would be necessary to retain the latter's willful participation (i.e., $\alpha_i^* \geq \alpha_i$). The premise is that, by allocating more value to stakeholder j, the firm creates the conditions for value increments

over time, as a form of an "intertemporal accounting" mechanism by stakeholders. The goal is to enhance the overall potential for value co-creation (i.e., $\gamma_{ij} \geq 0$) (Bridoux & Stoelhorst, 2016; Harrison et al., 2010). There is a relationship between the stakeholder-firm value co-creation and the value increment such that γ_{ij} is negatively related to α_i. That is, the less firm i appropriates the value co-created with stakeholder j, i.e, the more firm i allocates value to stakeholder j, then the more stakeholder j contributes (e.g., through firm-specific specialization) to incremental value creation:

$$\gamma_j = s_j \, (\alpha_i^* - \alpha_i) \qquad (3)$$

where $\alpha_i \leq \alpha_i^*$ and $s_j \geq 0$.

The factor s_j in our proposed theoretical relationships is a key parameter and captures stakeholder j's *value sensitivity*, which represents how much stakeholder j contributes in incremental value co-creation after receiving an allocation of additional value by firm i. Stakeholder j is value insensitive ($s_j = 0$) if its contribution to value creation remains unchanged when allocated more value by the firm. The more stakeholder j co-creates incremental value when receiving an extra value allocation ($\alpha_i^* - \alpha_i$), the higher j's value sensitivity. In classic value capture models, s_j is irrelevant: the firm is assumed to always maximize value capture ($\alpha_i^* = \alpha_i$). From a new stakeholder literature perspective, however, s_j accounts for a stakeholder j's likelihood to contribute to incremental value co-creation in response to i's extra (ex ante) value allocation by a firm.

This stylized framework highlights that the relationship between α_i and π_{ij} is non-linear and concave when $s_j > 0$. Assuming that v_{ij} equals 1:

$$\pi_{ij} = \alpha_i \, (1+\gamma_j) = \alpha_i + \alpha_i \, s_j \, (\alpha_i^* - \alpha_i) = \alpha_i \, (1 + s_j \, \alpha_i^*) - s_j \, \alpha_i^2 \qquad (4)$$

That is, firm i's retained share of the value co-created with stakeholder j increases with α_i up to an inflection point that is a function of s_j and α_i^* beyond which it recedes: d $\pi_{ij}/\alpha_i = (1 / 2s_j) (1 + s_j \alpha_i^*)$.

The relationship (4) is illustrated graphically in Figure 2. The relationship between α_i and π_{ij} becomes more concave as s_j increases. At high values of s_j (Panel B), the relationship takes an inverted U-shape: maximizing the share of value firm i retains (i.e., $\alpha_i \leq \alpha_i^*$) is suboptimal as allocating more value to stakeholder j would lead to higher value creation, a higher amount of value retained by the firm, and ultimately greater potential for further value creation. While, in this example, firm i may retain 100% of the value created based on its bargaining abilities, i receives the highest amount of value (1.125) by allocating an extra 25% of the value to stakeholder j. Stakeholder j is also better off in that scenario, receiving more value (0.375). Overall, the total value created by the firm-stakeholder relationship i increased (1.50 vs. 1.00 in the example) by allocating additional value to a stakeholder j.

Insert Figure 2 about here

As per the proposed framework, the value sensitivity factor s_j is central in this analytic relationship and in understanding the underlying firm value-based choices. When a stakeholder j is value sensitive ($s_j \geq 0$), the value co-created by the dyad ij is suboptimal if the firm attempts to capture the maximum share of the value (α_i^*) it can obtain according to its bargaining abilities. Understanding the conditions under which stakeholders' value sensitivity may vary is thus critical.

Interpretation

The above stylized framework opens a conceptual path to a deeper integration between separate research streams on stakeholder theory and value capture modeling. As our analysis suggests,

prescriptions of value capture models hold when certain restrictive assumptions are met, i.e., when stakeholders are self-interested, fully informed of alternatives, have unrestricted bargaining abilities, and adopt a temporally bound exchange horizon. In such a case, the stakeholder's value sensitivity is null and value creation is optimal when the firm retains all the value it can capture ($\alpha_i^* = \alpha_i$). Empirically, this would apply as a plausible representation of firm-stakeholder value relationships in perfectly competitive markets in which strong institutions are in place with no information asymmetries (i.e., limited uncertainty) and no significant market frictions (Mahoney & Qian, 2013).

Nevertheless, as we argue, when fundamental assumptions characterizing firm-stakeholder relationships under value capture models are not met, the value sensitivity factor s_j is likely to become significant. Value co-creation may then be suboptimal if the firm behaves as a maximum value appropriator. In such conditions, stakeholder value sensitivity becomes a key parameter for optimal firm value allocation strategies. This carries the crucial implication that a firm must identify stakeholders' value sensitivity and assess divergence in this sensitivity to avoid allocating too little value to those stakeholders that are highly value sensitive and, symmetrically, to avoid allocating too much value to those stakeholders that are not value sensitive.

Value sensitivity

What shapes the value sensitivity of stakeholders? The assumptions and arguments previously discussed suggest a theoretical path for further inquiry into the conceptual factors that may affect value sensitivity, as has been suggested in emerging insights from the new stakeholder theory. Such conditions are likely to occur when stakeholders hold reciprocity expectations (R), have obfuscated information on alternatives (O), limited bargaining options (L), and seek an extended relationship with the firm (E). To unlock value co-creation potential,

firms interacting with “ROLE” stakeholders that have these qualities may have to allocate more value to them and prioritize their value-based strategies accordingly to maximize value creation.

Prior research suggests that stakeholders have different inherent preferences or motives that affect their likelihood to be “reciprocators” (Bridoux and Stoelhorst, 2014). Stakeholder value sensitivity may also vary depending on underlying resource-based characteristics. For instance, under conditions where the nature of underlying productive resource permits little or no potential co-specialization, extra value allocation to the stakeholder may not lead to viable augmentation in value creation because underlying stakeholder value sensitivity tends towards zero. This reasoning suggests that co-specialization is an important parameter underlying stakeholder sensitivity, in line with an emerging consensus in the new stakeholder theory (Barney, 2018; McGahan, 2021) (we return to this important point in the discussion section).

Stakeholder value sensitivity may be affected by the nature of the governance system or property rights that give rise to stakeholder control of a productive asset that enable added value. For example, under conditions of low stakeholder enfranchisement, or when stakeholders hold restricted or incomplete control rights over core resources that limits their co-investment in specialized firm assets and capabilities (Klein et al., 2019), then stakeholder value sensitivity may be low and require governance-based adjustments instead of or prior to additional value allocation by firm.

Finally, stakeholder value sensitivity is contingent upon the temporal horizon characterizing the exchange. When repeated exchange facilitates information flow, trust and cooperation, then firms and stakeholders deepen their mutual embeddedness in the value creation system (Reagans & McEvily, 2003; Uzzi, 1997). Under these conditions, stakeholders seeking extended relationships with a firm are likely to exhibit higher value sensitivity. This characteristic has important implications for optimal value-based strategies.

DISCUSSION AND IMPLICATIONS FOR THE NEW STAKEHOLDER LITERATURE

Our proposed framework represents a conceptual bridge between the value capture and stakeholder research traditions with important implications for firm value-based strategies from both views. The conceptual framework that we offer illuminates several areas of inquiry that are yet not fully resolved in the new stakeholder theory and demand further insight, namely: the key mechanisms underlying firm-stakeholder value creation (notably, value sensitivity and the role of co-specialization), the role of uncertainty, the presence of multiple stakeholders, a dynamic view on firm-stakeholder value-based ties, and implications for optimal value-based strategies by a firm. Taken together, this discussion, along with the proposed conceptual model, advances the emerging insights and implications of new stakeholder theory, and presents, we hope, a foundational framework on which future research may build.

(1) Stakeholder value sensitivity and the role of co-specialization

One of the most important conceptual issues that may be addressed in a more formalized stakeholder-oriented framework on value allocation and creation, as proposed here, concerns the role of co-specialization, understood in a sense of stakeholder investments in firm-specific resources (McGahan, 2020). Resolution is required in the profound theoretical tension between the extent of co-specialization and its value-based implications, embedded in traditional value capture models as well in the stakeholder literature.

We refer here to existing literature providing fundamentally conflicting predictions in terms of firm and stakeholder ability to appropriate value under increasing co-specialization, particularly if the co-specialization is asymmetrical on stakeholder side, with subsequent holdup and excessive value capture concerns (Foss & Klein, 2018). The traditional thinking in strategic management, based on insights from incomplete contracting, is that in the presence of cospecialized investments, residual control rights of assets should be allocated to the party who

makes the most important investments, in order to maximize value creation. Such a logic, however, breaks down in exchange that is subject to market frictions, such as imperfectly assigned or inalienable control rights, as in the case of human capital (Mahoney & Kor, 2015; Mahoney & Qian, 2013). Findings in the value capture tradition predict that employees would not make any "nonrecoverable, relationship-specific investment" unless they are given ownership to avoid holdup and excess value capture by the firm. Coff and Raffiee (2015: 326) expose this theoretical tension in the case of firm-employee relations and co-specialization : "Firm-specific human capital is a source of sustained competitive advantage, at least in part because it may constrain employee mobility. However, it is also typically assumed that employees are reluctant to invest in firm-specific skills because such investments may come at the cost of developing general skills, thereby reducing their attractiveness in the labor market. This creates a theoretical paradox: Employee investment in firm-specific human capital is crucial for value creation and appropriation, yet there is believed to be global underinvestment in firm specific skills."

Conceptually, resolving such a paradox may arise through the reallocation of residual control rights or through managing the firm-specificity perceptions of stakeholders (Coff & Raffiee, 2015). Our proposed framework points to the value-based roots behind such underinvestment and suggests another route–that of ex ante value allocation (inducements) by firm to stakeholders to overcome the co-specializations hurdle and enhance overall value creation. Our proposed approach suggests that to the extent co-specialization is likely to increase stakeholder value sensitivity, an optimal strategy for firms may imply value allocation beyond what is required in market exchange as a value maximization strategy, rather than maximum value capture under stakeholder holdup (as predicted by the value capture literature).

Insights from our framework have important implications for the firm's broader strategies of co-specialization, distribution of residual control rights, and stakeholder management. As our framework suggests, intertemporal accounting may represent a viable mechanism for value creation through specialization in the absence of ownership by stakeholders. In other words, when co-specialization arises without co-ownership, then additional value may be created if the stakeholder can reasonably expect a fair return on investment in the future, or is provided ex ante with excess value under an agreement that induces the investment. The value allocation approach we propose carries important implications for firm value-based strategies when first-stakeholder interactions are repeated and when stakeholders exhibit bounded self-interest (i.e. reciprocal exchange), and/or restricted bargaining (limited knowledge and understanding of alternative opportunities).

Ultimately, the framework enriches our understanding of the intricate and fundamentally endogenous relationship between value creation and value distribution. Among its key implications is that adopting classic value capture view on co-specialization and firm bargaining power may result in sub-optimal value creation when stakeholder-level value creation and allocation parameters are not considered. To the extent co-specialization binds stakeholders to organizations (Klein et. al, 2019; McGahan, 2020), further formalization of what "stakeholder stickiness" means for underlying value creation is crucial.

(2) Value-based strategies under uncertainty

Our framework raises important questions regarding the value-based strategies of a firm under uncertainty. As suggested by prior literature, uncertainty represents a latent parameter in any value creation and capture equation. Mahoney & Qian (2013: 1020) argue: "value creation and value capture are complementary when an expectation of value appropriation leads decision makers to carry out value-creating strategies under uncertainty." This suggests that any

asymmetries in the perceptions of unknown outcomes between firm and its stakeholders in terms of value creation and distribution are important inputs in firm-stakeholder value relationships.

One way in which uncertainty features as a latent parameter in our proposed framework can be derived from the effect of value allocation by firms to stakeholders on additional value creation. Such value inducements can essentially be a mechanism through which the firm reduces Knightian uncertainty that may prevent at least some of the stakeholders to commit ex ante to value creating investments (McGahan, 2021). To the extent that the firm–given its nature as a legal vehicle–is better equipped than individual stakeholders to deal with such uncertainty, strategies such as additional value allocation by firm to stakeholders, as discussed in this paper, become the central mechanism through which firms can induce value creation by stakeholders under exchange uncertainty.

Recent arguments in the resource-based view highlight the superior ability of firms to address uncertainty in ways that may impact value creation. Due to their central position in the stakeholder network, firms may have more accurate value expectations than individual stakeholders and can thus create value by selecting a unique bundle of stakeholder resources at prices inferior to the revenues these combined resources generate (Barney, 2018). These and other insights pertaining to the impact and resolution of uncertainty via value-based mechanisms of firms represent, in our view, important future avenues for research.

(3) Value-based strategies under multiple stakeholders

Another set of considerations raised by our framework requires further theoretical development beyond the bounds of this paper. This set deals with the value-based strategies of firms that manage multiple stakeholders with important complementarities (both positive and negative). In our stylized conceptual framework, to achieve analytic clarity, we have considered and laid out

value implications in dyadic firm-stakeholder relationships.[4] Yet, as increasingly highlighted by value capture and stakeholder research, firms are at the center of broader networks of interdependent stakeholder ties. Further research is required on the implications of complex stakeholder complementarities for value-based strategies.

Consider a fictional firm with two stakeholders: j_0 has no value sensitivity while j_1 is highly value sensitive. The optimal strategy by the firm implied under the framework presented in this paper consists of maximizing the amount of value created with j_0, and allocating the retained share of that value to j_1 so as to induce greater value co-created with j_1. If we assume a firm with n stakeholders, then the optimal strategy consists of selectively allocating value to the n stakeholders so as to maximize the amount of value created across all n stakeholders by prioritizing value allocation to reflect each stakeholder's value sensitivity. But to allocate value, the firm needs to retain value too: the value allocated to a set of stakeholders to unlock value creation may need to come from the value appropriated within other stakeholder relationships. Under certain conditions, the value previously cumulatively retained by a firm may not be sufficient for allocating extra value the diverse stakeholders to reach the full potential of value creation in the stakeholder network. The implications of such simultaneous, multiple stakeholder-firm ties merits further theoretical and empirical inquiry.

Broadly, our work suggests a need to further refine and consider the implications of heterogeneity and interdependencies in multiple, simultaneous stakeholder relationships to the firm, as well to expand the underlying model to account for different degrees of complementarity in the underlying stakeholder-firm ties.

[4] Following Garcia-Castro & Aguilera (2014), we note that in terms of formal model, our dyadic modelling approach lends itself to the extension of a situation with multiple (i.e. more than 2) stakeholders within the legal construct that is a firm. It consists on focusing on incremental change in value while treating the value created and appropriated by all the other stakeholders in the firm taken as whole.

(4) A dynamic view on firm-stakeholder value-based ties

A further set of important implications that may be derived from the fundamental arguments presented in this paper refer to the dynamic purpose of the firm. As the new stakeholder theory suggests, the role of the firm stretches beyond that of a private value capture maximizer (as prescribed in the tenets of value capture view), to that of a broader orchestrator of value allocation and creation across the stakeholder network. The cumulative surplus of value "unlocked" across the entirety of the firm's value creation and catchment system thus represents the net contribution of the firm (i.e. its cumulative stakeholder synergy), in excess of what market relationships among the implicated actors may generate in the absence of the firm.

In this respect, important further opportunities arise regarding inquiry on the firm as a "value arbitrator" or "orchestrator." These may involve further modelling as well as studies on how firms design and develop their value system architecture and firm-stakeholder value network boundaries (including decisions on stakeholder inclusion and exclusion). Such choices carry important implications for the firm's ability to facilitate value creation while managing simultaneously multiple stakeholder ties.

In line with the emerging insights of the new stakeholder theory, a firm is likely to choose which stakeholders it will or will not work with based not only on the extent to which those selected stakeholders will be complementary in the construction of value with the firm (i.e. their value sensitivity), but also relative to each other. In other words, a particular firm might choose to work with stakeholders A, B, and C but leave out stakeholder D even though stakeholder D could create additional value because the particular complementarities between D and the other stakeholders would make D's contribution suboptimal in creating overall value (accounting for overall incremental joint value creation facilitated by a firm).

Based on the insights in this paper, there is a promising and important research path open for building a more dynamic view on value creation and allocation in the firm-stakeholder ties. Not all stakeholders are enfranchised and enter firm's value system simultaneously. This bears very interesting theoretical implications relating to the role of a firm and the fundamental link between entrepreneurial processes and value creation. As argued by McGahan (2021), not only there is a need to study further how the "founding" entrepreneurial team's stakeholders conceptualize the value creation opportunity, but also important questions arise from the order in which stakeholders are engaged and the ways in which information about joint value is revealed. Exploring these questions further would yield a better understanding and stronger conceptual linkages in theory on firm boundary choices, stakeholder enfranchisement and value creation as well as allocation as fundamentally interlinked, dynamic processes.

(5) Implications for optimal value-based strategies by a firm

Ultimately, the framework in this paper suggests important firm-based strategies for assessing how value should be allocated across stakeholders. As mentioned, such insights bridge the seemingly inconsistent predictions stemming from both the established value capture perspective and the new stakeholder theory.

Under the traditional value capture view, the firm is predominantly concerned with maximizing its private share of value. Thus, a firm operating in a classic value-creating game with supply- and demand-side competition, and with idiosyncratic bargaining abilities as key determinants of value bounds, is expected to maximize its own value appropriation by enhancing its bargaining abilities or restricting the bargaining abilities of stakeholders. An outcome is that a firm may be enticed to reduce the potential for stakeholder co-specialization if the latter threatens the bargaining power of the firm. Alternatively, the firm may attempt to shape the co-specialization asymmetrically (to increase the co-dependence on stakeholder side). A firm may

also actively seek to restrict the bargaining abilities of the stakeholder (something that is plausible even if not yet modelled in the existing value capture studies, under the prevailing assumption of unrestricted bargaining and exogenously determined opportunity costs), for example, by attempting to shape stakeholder co-specialization and to reduce the competition for same stakeholder resources externally (and hence the availability of outside options).

Our framework suggests that such strategies may be suboptimal unless the strict assumptions of the value capture model hold (e.g., perfect information, unrestricted bargaining, non-repeated interactions), and the stakeholders of the firms are not value sensitive. If at least one of its stakeholders has positive value sensitivity ($s_j>0$), a firm seeking maximum value capture may not unleash the full potential of value co-creation. This implies that not only the overall value co-created by the firm with its stakeholders may not reach its full potential under classic value capture strategy–with total value creation being suboptimal–but, critically, the value retained by the firm is also lower than what is possible–i.e. the amount of value retained by a firm is suboptimal.

Stakeholder studies acknowledge an alternative strategy for a firm based on value re-distribution (Klein et al., 2019), whereby a firm decides to voluntarily reduce the share of the value it appropriates to reward its stakeholders. Our model, again, implies that such a strategy may not be optimal unless specific restrictive conditions are met. In particular, when at least one stakeholder has low value sensitivity (i.e. when $s_j \rightarrow 0$), distributing value beyond what would be needed to maintain stakeholders' participation in the firm may not result in a supplement of value co-created with the stakeholders. The result is a net loss of value captured by the firm to the sole advantage of the stakeholder(s) benefiting from the firm's largesse. In terms of overall value creation, such a strategy may also be suboptimal to the extent that value could be allocated to

stakeholders with higher value sensitivity, inducing a potentially larger overall value "pie" and thus more value accruing to both the firm and the stakeholders.

Ultimately, insights from our framework carry important managerial implications in terms of differential value allocation and creation by firm in its stakeholder ties. Our model suggests that decisions to allocate value to stakeholders beyond what is needed to maintain their participation in the firm depend on the conditions surrounding the firm-stakeholder relationship, such as the extent of repeated, co-specialized relationships with the firm, limited information or mobility in terms of alternatives, and/or reciprocity expectations on the value a given stakeholder contributes. Value allocation, as we illustrate, depends on the level of value sensitivity of each stakeholder. Under-allocating value to a stakeholder is suboptimal for both firm's value capture and overall value creation when the stakeholder has high value sensitivity. Likewise, over-allocating value may not be the right strategy when stakeholders have low value sensitivity.

These arguments, derived from our proposed conceptual framework, suggest that firms should not uniformly maximize value capture or distribute value to all stakeholders beyond threshold levels. Implementing a value allocation strategy may rather involve a combination of two tactics. First, firms may learn about the value sensitivity of their stakeholders. For instance, as firms develop capabilities to manage stakeholders, they may acquire private knowledge about stakeholder preferences (Harrison et al., 2010), including information about their idiosyncratic level of value sensitivity. Accordingly, firms may sort out and respond to stakeholder demands for a larger amount of value based on stakeholder-specific value sensitivity, beyond accounting for stakeholder positional characteristics such as power, urgency and legitimacy (Mitchell, Agle, & Wood, 1997), and the attributes of their claims (Eesley & Lenox, 2006).

Second, firms may attempt to augment stakeholder's value sensitivity to increase the potential for value co-creation (i.e., increase s_j). In such a case, a firm would act on one for the

conditions that tend to reduce stakeholder value sensitivity by either easing resource-based restrictions, reducing exchange uncertainty, or enhancing the degree of stakeholder enfranchisement, for example, by altering the governance structures to permit higher control and decision rights to certain stakeholders (Klein et al., 2012).

CONCLUSION

While research in strategic management recognizes the critical role of stakeholders in maximizing firm-level value creation, there remain contrasting prescriptions on value-based strategies from value capture theory and the new stakeholder theory perspectives. Despite crucial insights from both perspectives, a gap remains in our knowledge and understanding of the conditions that may (or not) give rise to value creation in firm-stakeholder ties, particularly beyond what a market-based exchange would predict (Bosse et al., 2009; Bridoux et al., 2011). The value capture and stakeholder perspectives have not yet been integrated, largely, as we demonstrate, featuring divergent conceptual foundations. From a practitioner standpoint, we still lack an understanding of which stakeholders matter most in terms of their contribution to value creation, and, accordingly, which stakeholders should have a claim on the value created through firm-stakeholder relationships (Barney, 2018). Addressing these questions is crucial for firms to design strategies that maximize overall firm-stakeholder value creation and inform the extent of value redistribution that a given firm is to undertake.

In this paper, we contrast key theoretical mechanisms and assumptions behind both existing value capture and stakeholder research and propose a conceptual framework that builds on stakeholder-oriented value allocation and creation as two analytically distinct and yet interdependent and crucial facets of firm-stakeholder ties. In doing so, we aim to open a deeper dialogue between the value capture and stakeholder theoretical perspectives, to formalize

emerging insights on stakeholder claims, and to identify further research that may deepen the new stakeholder theory, in particular.

Our work makes several contributions. We reconcile seemingly divergent predictions on optimal value strategies in the value capture and stakeholder perspectives by revisiting their underlying assumptions and elaborating on key value creation and allocation mechanisms. We propose a conceptual framework that redirects attention from the re-distributional and largely "zero-sum game" approach prevailing in the existing value-based literature. Instead, we propose a strategic approach to stakeholder management that builds on the divergent sensitivity of stakeholders to value allocation by firms under the conditions of bounded self-interest, limited information availability, restricted bargaining, and repeated exchange. As such, our work contributes to an emerging view of the firm as a broad value orchestrator that assembles, directs, and maintains a stakeholder network for collective benefit.

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TABLES AND FIGURES

TABLES

Table 1: Contrasting main theoretical assumptions and implications in value capture and stakeholder-based perspectives

Key assumptions	**Value capture research**	**Stakeholder research**
Interest orientation:	Self-interest	Bounded self-interest / reciprocity
Information availability:	Full, symmetric	Limited, asymmetric
Nature of bargaining:	Unrestricted	Restricted
Interaction horizon:	One-time	Repeated
Focal level of value accrual	Firm	Stakeholder-firm
Implied value flow	Maximal	Suboptimal
Analytic relationship between value creation and value allocation	Value creation precedes value allocation	Value allocation conditions value creation

FIGURES

Figure 1: Representation of the conceptual mechanisms underlying value allocation and value creation

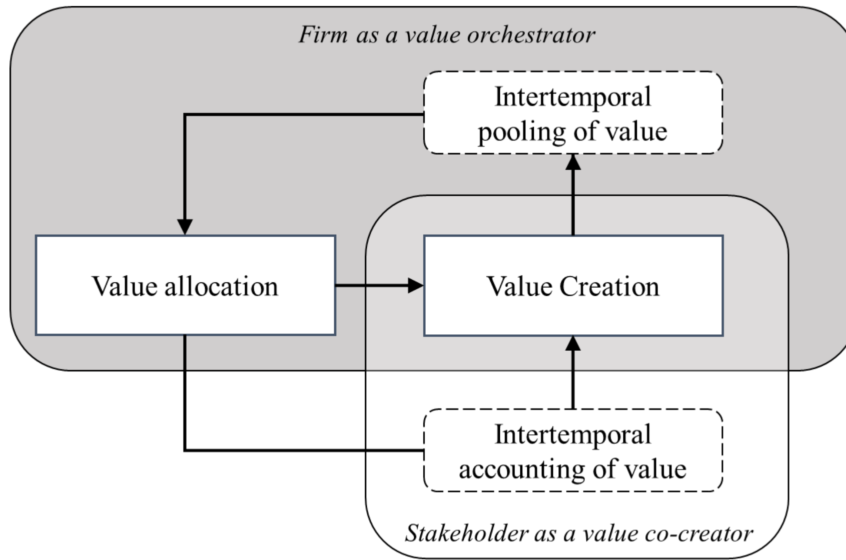
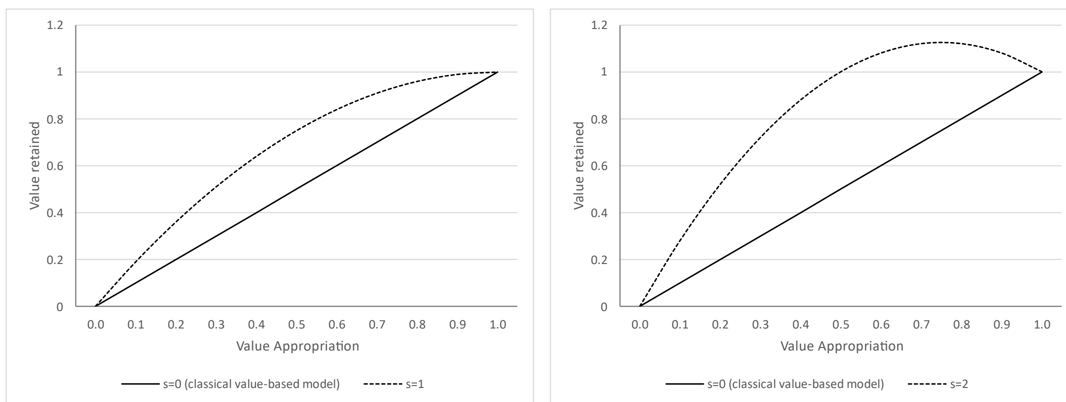


Figure 2: Value retained by the firm depending on stakeholder value sensitivity



Panel A: $v_{ij}=1$, $\alpha_i^*=1$, $s_j=1$

Panel B: $v_{ij}=1$, $\alpha_i^*=1$, $s_j=2$