Value Capture Theory: A Guide to Key Theories for Strategic Management

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1 Introduction

Value capture is a central concept in strategic management theories. The field has developed multiple theories of value capture which can often be usefully reformulated and subsumed under the value-based framework A. M. Brandenburger and H. W. Stuart 1996. It provides a common language articulated around notions of value creation and value capture and how the former enables the latter. Its strengths are its conceptual generality and sophistication, and its ability to complement and play well with other theories in strategic management. This entry will provide an account of how value capture theories matter to strategic management thinking, of the nuts and bolts of the value-based framework, and survey some of its contributions and connections to other theories.

2 Theoretical Foundations

2.1 What is value capture and why do we need theories of it?

In strategic management, a theory of value capture is a theory of profitability. Such theory must state a mechanism by which an economic entity is able to keep for itself a surplus of value above what it needs to distribute to operate while facing various constraints, including other actors who also compete to capture a surplus. Strategic management has been largely, though not exclusively, defined by a quest to explain what makes private-sector organizations successful in absolute and relative terms. Value capture, in the guise of profitability, is a leading metric of success, and most often supports reaching other organizational goals, such as survival, or the continuing ability to fulfill the organization's mission if it is not narrowly defined in terms of profitability.

A theory of value capture can be found in most canonical theoretical statements concerning the success and behavior of firms. For instance, profits caused by the mitigation of competition and the ability to keep prices higher reflect the value capture theory underlying the positioning approach to strategy Porter 1980. Superior efficiency providing Ricardian rents, combined with factor market imperfections, underlie the resource-based the-

ory Peteraf and Barney 2003. Capturing transient, innovation-based advantages (Schumpeterian rents) motivate theories of dynamic capabilities Teece, Pisano, and Shuen 1997. The emergence and control of value creation bottlenecks is a key driver of heterogeneity in profitability in ecosystems Baldwin 2015. Transaction-cost economics Williamson 1981, which is interested in the efficiency of institutional choices, gives a special role to the avoidance and mitigation of holdup, which is a mode of value capture by opportunistic actors. Theories in strategic management may not focus primarily on value capture, but value capture is always on the causal path between deep causes of corporate success and the outcome of interest (value capture itself or a goal to which value capture contributes).

The development of the value-based approach A. M. Brandenburger and H. W. Stuart 1996; A. Brandenburger and H. Stuart 2007; MacDonald and Ryall 2004 represents the emergence of a general-purpose, formal model-based, theory of value capture. It especially fits the needs and concepts of strategic management research. This theory was developed by game theorists teaching in strategic management departments. Their key insight was to recognize that strategy was, at a high level, concerned with the creation and capture of value and that the formalism of cooperative games allowed them to directly manipulate these concepts with the least amount of extraneous overhead A. Brandenburger 2002, notably in a dialogue with Porter's theories of industry analysis and positioning Porter 1980; Porter 1985. This framework is arguably the most widely used in core strategy teaching Alcacer et al. 2020, which is a testament to its ability to work with other theories in strategic management.

2.2 The value-based theory of value capture: An informal primer

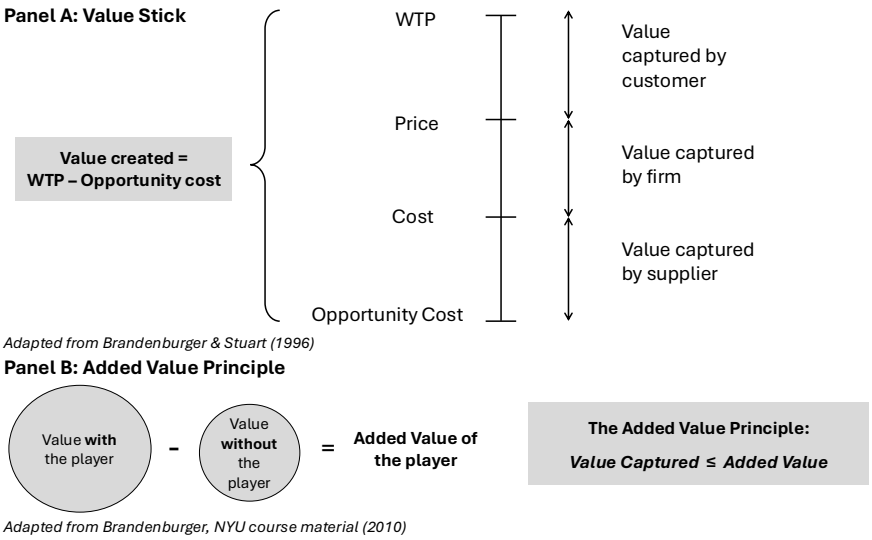
2.2.1 Main concepts

Since its inception A. M. Brandenburger and H. W. Stuart 1996, the value-based stream conceptualizes the process of value creation and capture as one where players are active participants, negotiating potential deals in a fluid and unconstrained way, individually and as groups. Players freely interact with each other, creatively proposing potential deals involving both creation and split of value and getting to an agreement that cannot be improved upon. While value creation and value capture may seem separate, they are intertwined as the process of negotiating over value motivates players to find out about value creation and maximize it. To be agreed upon, any allocation of value must be stable ("no good deal gets undone"), forming an equilibrium, i.e., a situation where no agent (or group of agents) can improve their lot by acting unilaterally.

This theoretical move rejects the detailed protocols used in non-cooperative game theory, the kind most commonly used, which focuses on procedure and requires precise specification of moves and countermoves. Instead, in cooperative game theory, precision is traded for generality, the goal being to determine bounds for a player's value capture given general principles. Strikingly, this approach does not explicitly determine prices. Instead, it links directly value creation to value capture (profits) while skipping price setting, in a way apposite to business strategy's emphasis on performance outcomes for actors. Excellent extended syntheses of the theory can be found in Gans and Ryall 2017 and Ross 2018.

Value creation. One major contribution of Brandenburger and Stuart (1996) was to

FIGURE 1. Value Stick and Added Value Principle



provide a common language, now ubiquitous, for describing value creation and value capture. In this article, value creation is primarily defined in terms of a vertical supply chain, from suppliers to firms to customers, in a strong parallel to Porter's 5-forces. The value created by a firm's activities is defined as the difference between the willingness-to-pay of customers for the firm's offering and the opportunity cost of the suppliers for providing the inputs into the firms' production. Willingness-to-pay (WTP) is the highest product price for which a customer would rather pay to acquire the product while the opportunity cost (OC) is its mirror image, the lowest input price ("willingness-to-sell" Oberholzer-Gee 2021) at which the supplier would rather sell to the firm. Defining value created in this way strongly suggests that the supplier and the customer sides are as important to a firm's value creation function, in a way reminiscent of earlier resource-based arguments Wernerfelt 1984, which consider that resources and products are two sides of the same coin. Willingness-to-pay and opportunity cost are unobserved quantities, while the sale price (which must be less than or equal to the WTP) and the input price (which must be greater than or equal to the OC) are recorded. The value captured by the firm is simply the difference between sale price and input price. Panel A in Figure 1 illustrates such a "value stick".

Abstracting away, the formalism is taken from cooperative games (also known as coalitional games, see, e.g., Osborne and Rubinstein 1994 for a textbook treatment of these concepts). Consider a set of players N who participate to value creation and attempt to capture value, and a function $v(S)$ (the *characteristic function* of the coalitional game) that takes any subset of players $S \subseteq N$ and returns the largest amount of value that these players can create as a group. Important values are $v(N)$, the maximum amount of value the players can create in the "grand coalition", $v(i)$, the value player i can guarantee itself, and $v\big(N \setminus \{i\}\big)$, the value that the players who are not i can produce without i. It is assumed that adding a player to a group cannot diminish the amount of value the group can produce (i.e., toxic players can be costlessly ostracized as needed). However, the value determined for how much a set of players can create as a group does not assume that

it works without impairment to value creation (e.g., behavioral or agency issues, limited information, etc.), it simply assumes that this value is the best realistic amount that can be created by the group under these limitations.

Consider the following example. A market has two buyers (B_1 and B_2), one firm (F), and one supplier (S), so $N = \{B_1, B_2, F,\ S\}$. Value can only be produced by a set of players including at least one buyer, one supplier, and the firm. The firm can only produce one unit and uses one input from one supplier. The willingness to pay of B_1 is 10, that of B_2 is 8. The cost of the input supplied by S is 4. The maximum value is achieved by the firm serving B_1 (highest WTP) and using the input from S. We have: $v(B_1, F,\ S) = 10 - 4 = 6$, but also, $v\big(B_2, F,\ S\big) = 8 - 4 = 4$. Notice $v(N) = v\big(B_1, B_2, F,\ S\big) = v\big(B_1, F,\ S\big) = 6$, as B_2 is redundant to maximize value creation.

The value captured by player i is denoted π_i. The set of all $\pi_i,\ i \in S$, is an *allocation* of value. The players included in the game comprise the economic agents that are active in the process of value capture and among whom value is created and captured. With v, it is possible to define the value created by the transactions among those players, accounting for the utility created, and the opportunity cost (i.e., the outside options) of the players involved. Outside of the game are all the unmodelled players that are passive in the process of value capture and who abstractly matter by offering outside options to the players in the game.

This formalism sets the stage for a theory of value capture but is not itself a theory of value capture. A set of principles relating these constructs of value creation by groups of players to the value they capture is needed. The value stick is a powerful illustration of how the value created is distributed, but, alone, it does not offer a theory of value capture.

Value capture. The key conceptual move of Brandenburger and Stuart (1996) is to relate what a player can hope to capture to the total value that can be created and what would happen in a counterfactual situation where the player is excluded from the value creation process. This is allowed thanks to the characteristic function $v()$, which tells us how much value the players could hope to create together in the best-case scenario ($v(N)$), but also the value any smaller groups can create if they were to only work with each other (any $v(S),\ S \subseteq N$).

The fundamental principle is the *added value principle* (Panel B, Figure 1). Define the added value of player i as

$$AV_i = v(N) - v\big(N \setminus \{i\}\big), \tag{1}$$

i.e., the difference between the value achievable when all players participate ($v(N)$), and the value achievable when the focal player i is missing ($v\big(N \setminus \{i\}\big)$). Because adding a player does not reduce value, we always have $AV_i \geq 0$. The added value principle states that *a player cannot capture more than its added value*, and that *all value must be distributed*. Formally, for any player $i \in N$, $\pi_i \leq AV_i$, and $\sum_i \pi_i = v(N)$.

The logic is that under free-form bargaining the other players would not let a focal player capture more than its added value. If it were the case, these players would be better off excluding the focal player from the game and not giving it anything. Alternatively, a player's added value can be seen as the maximum amount of value the other players are willing to pay to bring the focal player in the group.

In our example, the added value of the Firm is $AV_F = v(N) - v\big(B_1, B_2, S\big) = 6 - 0 = 6$

and that of Buyer 1 is $AV_{B_1} = v(N) - v\big(B_2, F, S\big) = 6 - 4 = 2$.

The relevance of the principle to business strategy is clear. Strictly positive added value is necessary for strictly positive value capture. This is consistent with the idea that a firm must offer to the world something distinctive to earn profits. A key measure of distinctiveness is the value that can be produced thanks to the focal player on top of what its potential partners can achieve without it (i.e., its added value). Such measure of distinctiveness combines notions of utility and scarcity (added value is the measure of the unique synergies a player can create with the others) with the idea that partners must find an interest in dealing with the focal player (partners won't overpay to secure the player's participation).

This reveals the fundamental flexibility of the value-based theory of value capture. It proffers one fundamental mechanism for value capture (added value principle under free-form negotiations) that can be enriched with insights from other theories to explain the shape of v and how players' actions before the negotiation can influence it. The first theoretical tradeoff made in this theory is that the value-based theory of value capture takes a strong stand about the agency of players in the free-form negotiation, while pushing the connections to other theories in a pre-negotiation stage, when players may influence v (see biform games below). The second tradeoff is to give up the precision of the non-cooperative apparatus in exchange for robustness.

The condition $\sum_i \pi_i = v(N)$ plays an important role to relate each player's added value to value capture. Consider a case where the sum of the added values is equal to the total value ($\sum_i AV_i = v(N)$). Then, value capture is fully determined for all players, and they each get exactly their added value. Competition between players results in exactly one way of splitting value. This perfectly aligns each player's value capture to their contribution to the game Makowski and Ostroy 2001. However, this is a rather rare outcome in situations of interest to strategy scholars.

Situations of interest to strategy are often replete with complementarities among players, as synergies among players allow them to create more together than the sum of what they can do individually. In such cases, a more representative situation arises when multiple players make contributions to collective value creation, meaning high added value for many players and as a result $\sum_i AV_i \geq v(N)$ (this is the case in our numerical example). This implies that value capture is not fully determined by the added value principle (which only provides upper and lower bounds for a player's value capture) as there are multiple ways to satisfy the constraints on maximum value capture *and* the requirement to fully distribute value. For example, consider $v(A, B) = 100$, but $v(A) = v(B) = 0$. Each player's added value is 100, so any distribution such as $\pi_A \leq 100$, $\pi_B \leq 100$, and $\pi_A + \pi_B = 100$, satisfies the principle, which means here that any feasible distribution is also stable. This points to limits to the explanatory power of the added value principle alone. Finally, consider cases where competition limits severely any player's value capture, e.g., $\sum_i AV_i < v(N)$. Here we reach a contradiction since added value principle implies $\sum_i \pi_i < v(N)$ while it also posits $\sum_i \pi_i = v(N)$, suggesting that negotiations cannot close with a stable outcome (see below the discussion of empty cores).

2.2.2 Generalizations and extensions: The core and biform games

MacDonald and Ryall (2004) and Brandenburger and Stuart (2007) adopt the core as a concept of stability that generalizes the added value principle. If the added value principle is applied not only to individual players but also to any group of players, the resulting allocation is in the *core* of the cooperative game. The core is the set of allocations such that, for any subset of players $S \subseteq N$, the allocation of value satisfies $\sum_{i \in S} \pi_i \geq v(S)$. This requires that the allocation of value is acceptable to any group S by ensuring that the members of that group collectively capture more value than what they can guarantee themselves acting independently of the players outside S. All the constraints of the added value principle are included in the core, but the core requires more coalitions to be satisfied by the allocation of value. This reflects the idea that, under free-form bargaining, any group of members can threaten to break away if they are not better off in the proposed allocation.

In a given game, multiple allocations may simultaneously satisfy the conditions of the core, meaning that competition may not be enough to pin down value capture. Denote $\pi_i^{\min}$ and $\pi_i^{\max}$ the lower and upper bounds of value capture in the core for player i. If a stable allocation of value exists, we immediately have:

$$v(i) \leq \pi_i^{\min} \leq \pi_i \leq \pi_i^{\max} \leq AV_i. \tag{2}$$

But such an allocation may not exist, i.e., the core can be empty, which is a symptom of excess competition and instability. Like the indeterminacy of allocations, this is sometimes seen as a defect, but it is better interpreted as a positive finding about the situation being studied: an empty core is a symptom of an inherently unstable competitive situation. In real cases, we can expect players not to take such a game for granted and modify it beforehand to ensure stability, for instance by vertically integrating or institutionalizing collusive agreements Sjostrom 1989; Telser 1994.

Brandenburger and Stuart (2007) develop the formalism by extending it in multiple directions. They develop the biform game apparatus to model actions, typically long-term commitments, that affect the game by shaping $v()$. The biform game consists of a non-cooperative game stage (shaping the game) followed by a cooperative game (bargaining over value). The former uses a Nash equilibrium to determine decisions and the latter the core to determine value allocation. One issue is that the core often yields intervals of possible value capture for players rather than a single value, as required by non-cooperative games. To convert these intervals into a single value, Brandenburger and Stuart (2007) rely on results from the theory of decision under uncertainty, positing that players have preferences that evaluate an interval as the weighted average of the two extreme points, thanks to a "confidence index" α_i Hurwicz 1951. An interval $\left[\pi_i^{\min}, \pi_i^{\max}\right]$ is evaluated as equivalent to the value $\alpha_i \pi_i^{\min} + (1 - \alpha_i)\pi_i^{\max}$. The subsequent literature has often reified the subjective parameter α_i, which initially represents a player's optimism, into an objective ability to negotiate a favorable point in the interval. The index α_i may thus be seen as a "persuasive resource" MacDonald and Ryall 2004, or the bargaining power of suppliers vs. buyers Chatain and Zemsky 2007. While the "preference" interpretation of the index suggests investigating how differences in preferences affect competitive outcomes, the "persuasive resource" interpretation suggests that enhancing negotiation skills is a key

strategy lever.

2.2.3 Theoretical results

Face validity. One attraction of the value-based approach is that it brings under the same logic several seemingly disparate mechanisms for value capture that are important to strategy research and practice.

One of the main points in Brandenburger and Stuart (1996), is the conceptualization of the positioning of a firm in a supply chain in terms of its "value stick" ($WTP - OC$). Seeking an advantage thus means finding ways to increase this gap without paying too much for it and thinking about its sources of sustainability. It fits easily into Porter's notion of positioning Porter 1985 but extends and qualifies it because it does not presume that a "stuck in the middle" position is intrinsically inferior and is explicit about the cost of reaching a certain positioning. H. W. Stuart 2016 explores in detail the relationship between value gap advantage, capacity constraints, and demand linkages beyond the basic intuitions. He also recasts classic industrial organization models in value-based terms, finding that the lack of ability to commit to a price due to the free-form negotiations means that actors often restrain production capacity before negotiations to ensure they are missed at the margin H. W. Stuart 2005; Stuart Jr. 2004; Stuart Jr. 2007.

A classic argument in strategic management Teece 1986 is that complementary assets may be the key to capture value from an innovation, so much that control over the innovation may not even be necessary. This can be easily translated into value-based language Lippman and Rumelt 2003a; MacDonald and Ryall 2004. Suppose both an innovation and a complementary asset must be combined to create value. If each is uniquely available, ownership of either provides added value to its owner. However, if the innovation is freely imitable, its added value will soon vanish. Therefore, the path to value capture may be to keep control of the complementary asset, which may be much less imitable than the innovation. This neatly disentangles the source of new value (the innovation) from the source of value capture (the scarce and necessary complementary asset).

Another strategy widely practiced, especially by powerful digital platform and ecosystem orchestrators Cappelli and Chatain 2021, is to commoditize complementors, for instance by open sourcing technologies, akin to a "balloon squeeze" theory of value capture. If the added value of a set of players is reduced (the "squeeze"), they must capture less, which makes the remaining value available to be captured by other players. This exploits the concept of a minimum residual which is a lower bound on a player's value capture MacDonald and Ryall 2004; H. W. Stuart 2001; Tijs 1981.

Extending the framework. MacDonald and Ryall (2004) focus on characterizing necessary and sufficient conditions for $\pi_i^{\min} > 0$ at the highest level of generality. They find that a player i is guaranteed to capture value if there is not enough value in the game to make all of i's partners satisfied in the core while giving no value to i ($\pi_i = 0$). This reflects how much in demand the services of i are, as giving nothing to i results in an impossible situation. MacDonald and Ryall (2004) highlight the role of competition for a focal player as a driver of its guaranteed value capture $\pi_i^{\min}$, in contrast to the player competing for partners and parting with value to persuade others to work with it, which depresses $\pi_i^{\max}$.

Montez, Ruiz-Aliseda and Ryall (2017) continue in this vein by providing ways to determine tight bounds for $\pi_i^{\min}$ and $\pi_i^{\max}$ armed only with an observed partition of players into separate groups. This paves the way for further empirical work as it shows how to convert observed matchings into quantifiable necessary conditions for value capture without dealing with the full combinational complexity of the characteristic function.

Applications to core strategy questions. Other contributors have taken the biform formalism as a fertile framework to study contingencies and causal relationships between key strategic decisions and value capture. Early examples include Adegbesan (2009) who uses the value-based approach to provide new insights on how value is captured in factor markets. Chatain and Zemsky (2007, 2011) investigate scope decision under competition Chatain and Zemsky 2007 and find unexpected tradeoffs between staying specialized, and being a generalist to exploit client-specific value creation. Chatain and Zemsky (2011) soften the intensity of competition in the core with frictions that prevent some buyer-supplier pairings and relate industry-level constructs, such as barriers to entry and bargaining power of firms, to important questions such as the sustainability of a firm advantage. De Fontenay and Gans (2008) and Jia (2013) investigate vertical integration decisions, including investment in relation-specific assets. The value-based approach thus permits investigating tradeoffs between the efficiency of close relationships and the potential holdup opportunity and changes in outside competition they may entail. Almeida Costa and Zemsky (2021) ask whether there are tradeoffs between strategies to increase value capture through value creation and strategies that seek to improve the negotiating ("persuasive") capabilities of the players, and find that these are complementary and not substitutes, moreover players will tend to match the type of strategy followed by competitors.

Testing the foundations of the theory. Empirical work explicitly dealing with the fundamental aspects of the theory has followed two tracks. On the one hand, the value creation and appropriation (VCA) approach Garcia-Castro and Aguilera 2015; Lieberman, Garcia-Castro, and Balasubramanian 2017 has developed methods to measure how value flows to stakeholders along the supply chain, taking up the challenge of measuring the quantities of interest, many of which are not directly observable, but without necessarily focusing on a particular theory of value capture.

On the other hand, a stream of papers has sought to take as literally as possible the mechanisms of value capture in the value-based approach and test the empirical validity of its key constructs. The main challenge is to give an empirical content to a theory that relies not only on hard to observe quantities (e.g., WTP) but primarily on thought experiments (e.g., the construction of added value) to explain outcomes. Early work has sought to develop proxies for the constructs developed in this value capture theory in specific context, for instance leveraging the richness of the data Adegbesan and Higgins 2011 and using surveys to measure negotiation capabilities Bennett 2013. Chatain (2011), validates predictions of value capture from the value-based approach using rich data on the quality of law firms. He measures the added value of suppliers of legal services by comparing the quality ratings of current suppliers to potential alternatives accessible to clients, replicating the thought experiments underpinning the theory of value capture. Follow up studies used a revealed preference approach, fitting models of value creation and capture

that account for the optimality of the observed matchings to estimate negotiation abilities Grennan 2014 and drivers of value creation Chatain and Mindruta 2017; Mindruta et al. 2025. This stream of studies leverages specific settings to adapt the empirics and pin down the specific mechanisms, at the expense of studies encompassing multiple industries. Ross (2024) reviews more contributions and suggests empirical opportunities to test their results.

3 Relationship to Other Theories

The value-based approach to value capture is situated in a remarkable sweet spot: it is sophisticated and opinionated enough to make clear statements about value capture while flexible enough to mesh easily, rather than compete, with other theories.

It is clearly differentiated with respect to **industrial organization (IO)** and how **game theory** is typically used in economics. The fundamental difference is the reliance on the cooperative game engine to model free-form negotiation and directly deal with value capture; it eschews the determination of prices, and cuts directly to value capture. It shares with IO the concern with strategic interactions and with the role of commitments to strategically shape the competitive landscape Ghemawat 1997.

There is a striking similarity between formal **property rights theory** and the value-based approach. In both cases, the analyses deal with long-term investments or ownership decisions which shape fallback options, and decisions about value creation are made in anticipation of a stage of negotiation. Bel 2018 demonstrates the potential for cross-fertilization.

A synergistic relationship has developed with the **resource-based view (RBV)**. Key tenets of the RBV were reformulated into the "value-stick" framework Hoopes, Madsen, and Walker 2003; Peteraf and Barney 2003. Value-based theory provides a step change in analytical power by replacing Ricardian rents and gives additional insights about the competitive context in which resources and capabilities can be deployed to capture value Chatain 2011 and when heterogeneity can self-sustain Chatain and Zemsky 2011. Similarly Lippman and Rumelt 2003a; Lippman and Rumelt 2003b use cooperative games to develop new perspectives on the RBV.

Value propositions stemming from complementarities among independent actors are the central object of study in **ecosystems** research Adner and Kapoor 2010; Baldwin 2015; Jacobides, Cennamo, and Gawer 2018. Determining how fundamental drivers of value creation determine value capture and alignment among ecosystem participants can be achieved from first principles thanks to the value-based approach Chatain and Plaksenkova 2023.

Value capture theory can also speak to organization theory. For instance, Ryall and Sorenson (2007) reveal important boundary conditions for structural holes (a key source of advantage in **network theory**) to provide the benefits typically associated with them. In **resource dependence theory** terms, the concept of added value is a measure of how much the rest of the system is dependent on the focal player.

Stakeholder theory Barney 2018; McGahan 2023 shares assumptions similar to those of the value-based framework. Importantly it does not assume shareholder supremacy as suppliers of inputs (including capital) are treated symmetrically. Moreover, the value-

based approach posits that any player must work in coalition with others, implying that they must be appropriately compensated and motivated, which is implicit in the stability conditions of the value-based framework. The main limitation is the assumption of transferable utility. While some actors are interested in value as defined by fungible monetary utility, others may be motivated by non-monetary objectives Bridoux and Stoelhorst 2014 that are not commensurable. In a biform game, this can be addressed by distinguishing players who care and negotiate about value from others who have other objectives Chatain and Plaksenkova 2019.

4 Importance for Strategic Management

A central concern in strategic management is firm performance, which inherently involves a theory of value capture. Most major strategy theories address value capture, but the value-based approach offers a particularly general and flexible framework for understanding its underlying mechanisms. This versatility makes it well-suited for integration with existing theories, enhancing their conceptual coherence and deepening theoretical insight Foss and Hallberg 2014.

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