

VALUE CREATION INSIGHTS

**A Foundational Understanding of How Firms Build
Knowledge and Create Value**

Bartley J. Madden
www.LearningWhatWorks.com

Madden Center for Valuation Creation
Florida Atlantic University

DEVELOPMENT OF THE PRAGMATIC THEORY OF THE FIRM

- **Callard Madden & Associates 1970**
 - ✓ **Life-cycle Framework, CFROI**
 - ✓ **UBS HOLT Global Database**
- **Independent Research**
 - ✓ **Study Business History – Life-cycle Track Records**
 - ✓ **Systems Thinking**
 - ✓ **Knowledge Building**

WE NEED A VIABLE THEORY OF THE FIRM

———— AGENCY THEORY ————

- **Business schools**
- **Adversarial principal-agent relationships**
- **Lacks value creation insights for users**

FOUR CRITERIA TO EVALUATE A THEORY OF THE FIRM

- **Systems thinking**
- **The purpose of the firm**
- **Critical determinant of long-term performance**
- **Understand stock market valuations**

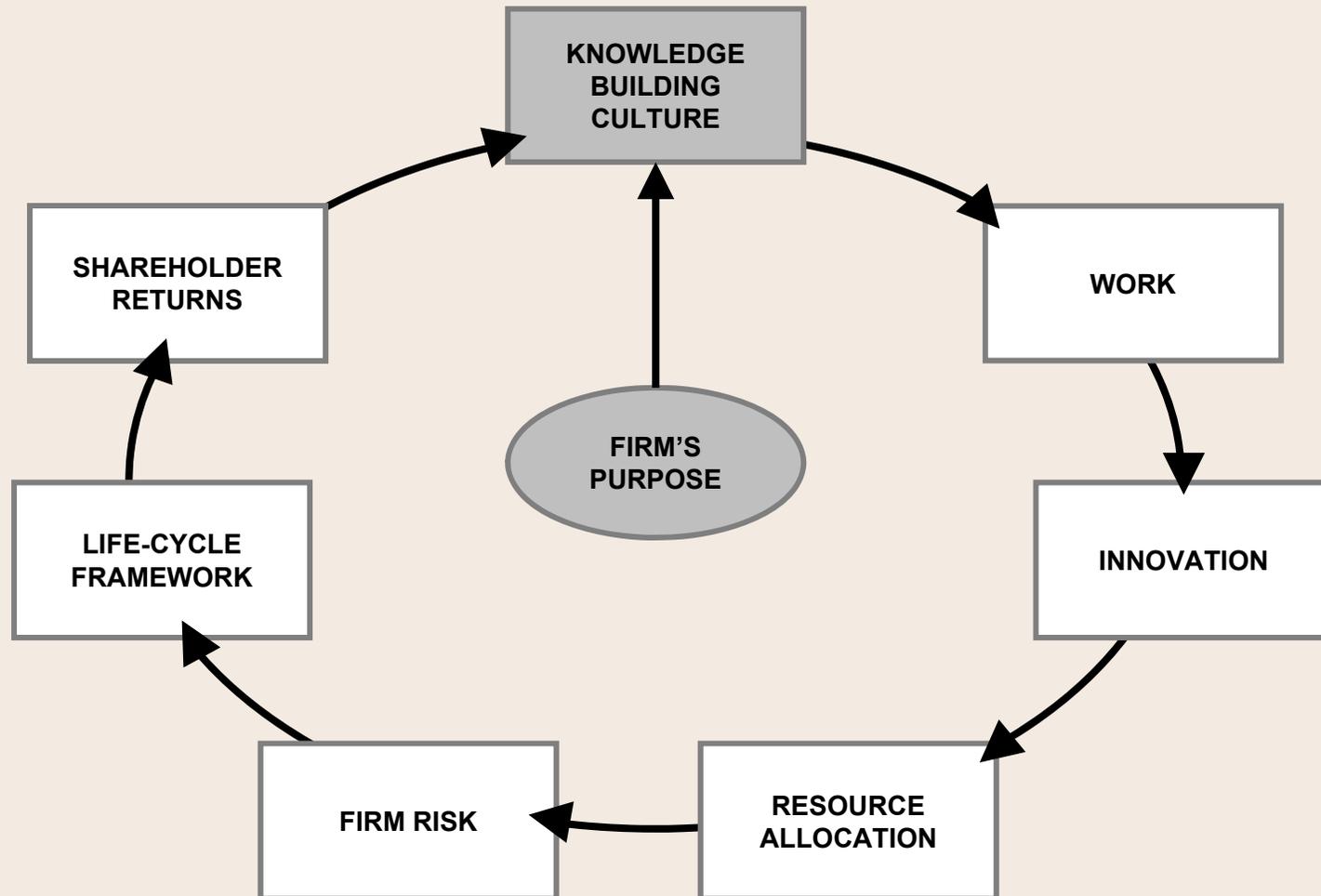
STARTING POINT – THE FIRM’S PURPOSE

- **Communicate a vision**
- **Survive and prosper**
- **Sustain win-win relationships**
- **Take care of future generations**

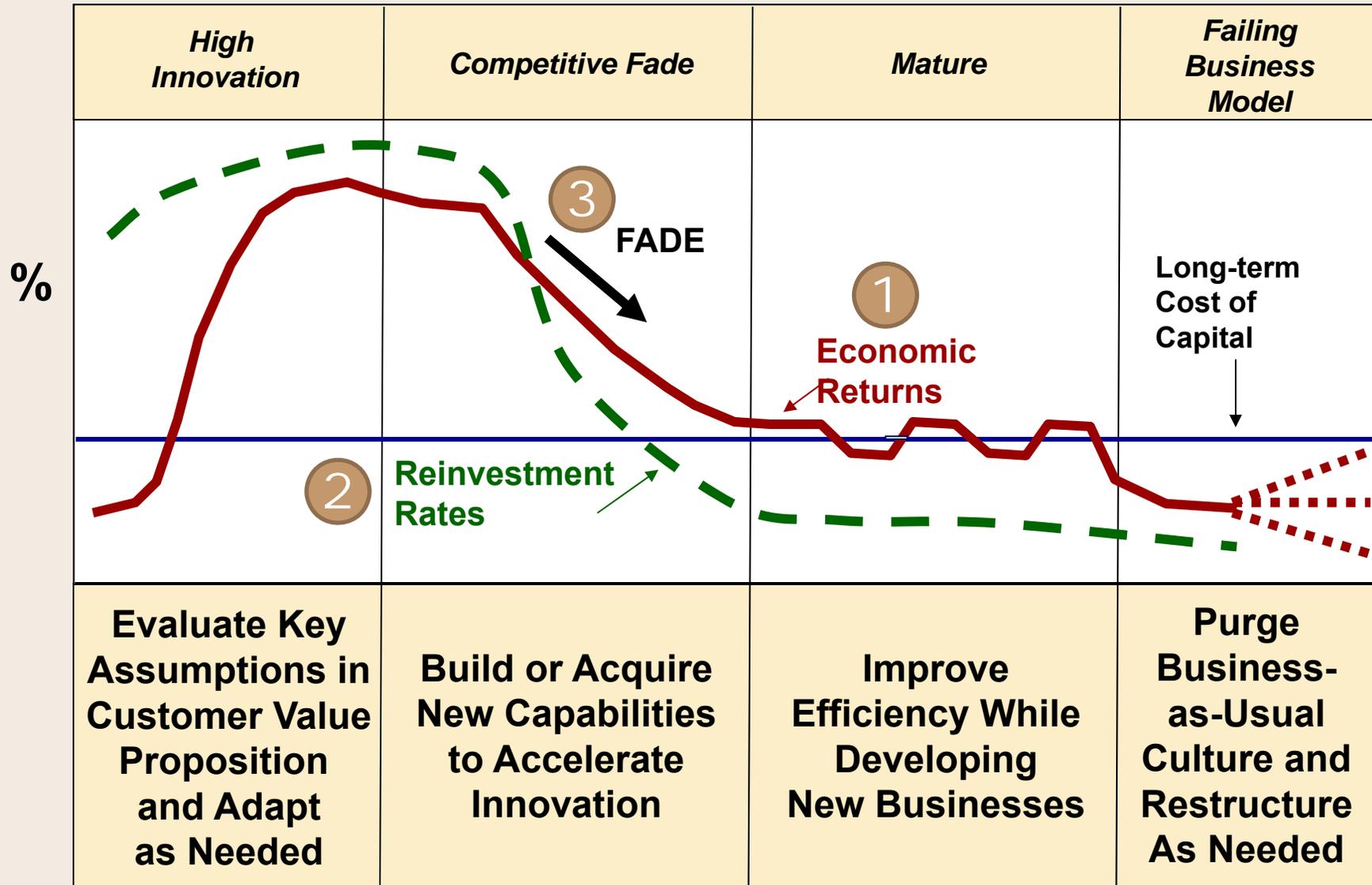


Maximizing shareholder value

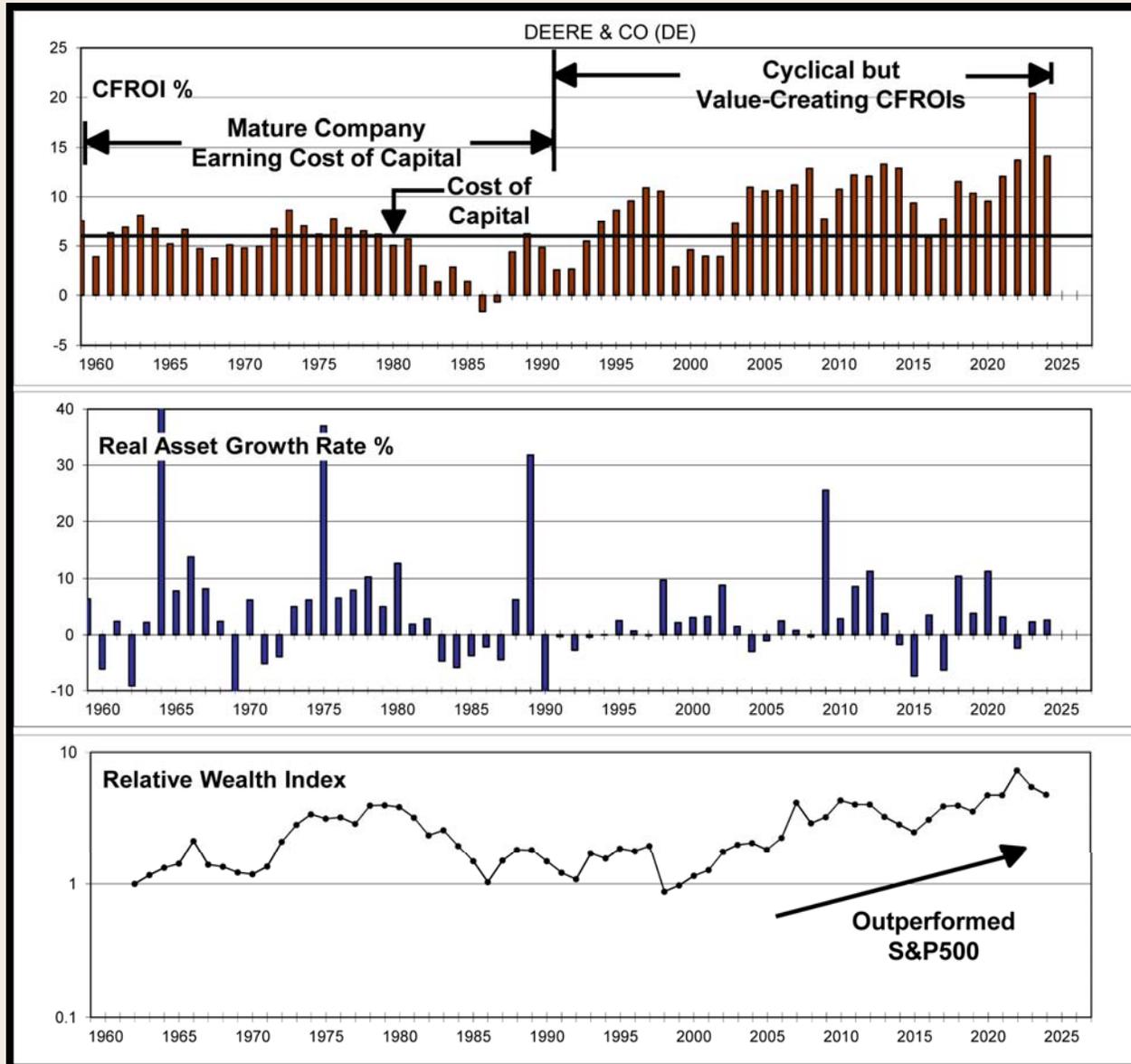
COMPONENTS OF THE PRAGMATIC THEORY OF THE FIRM



LIFE-CYCLE FRAMEWORK

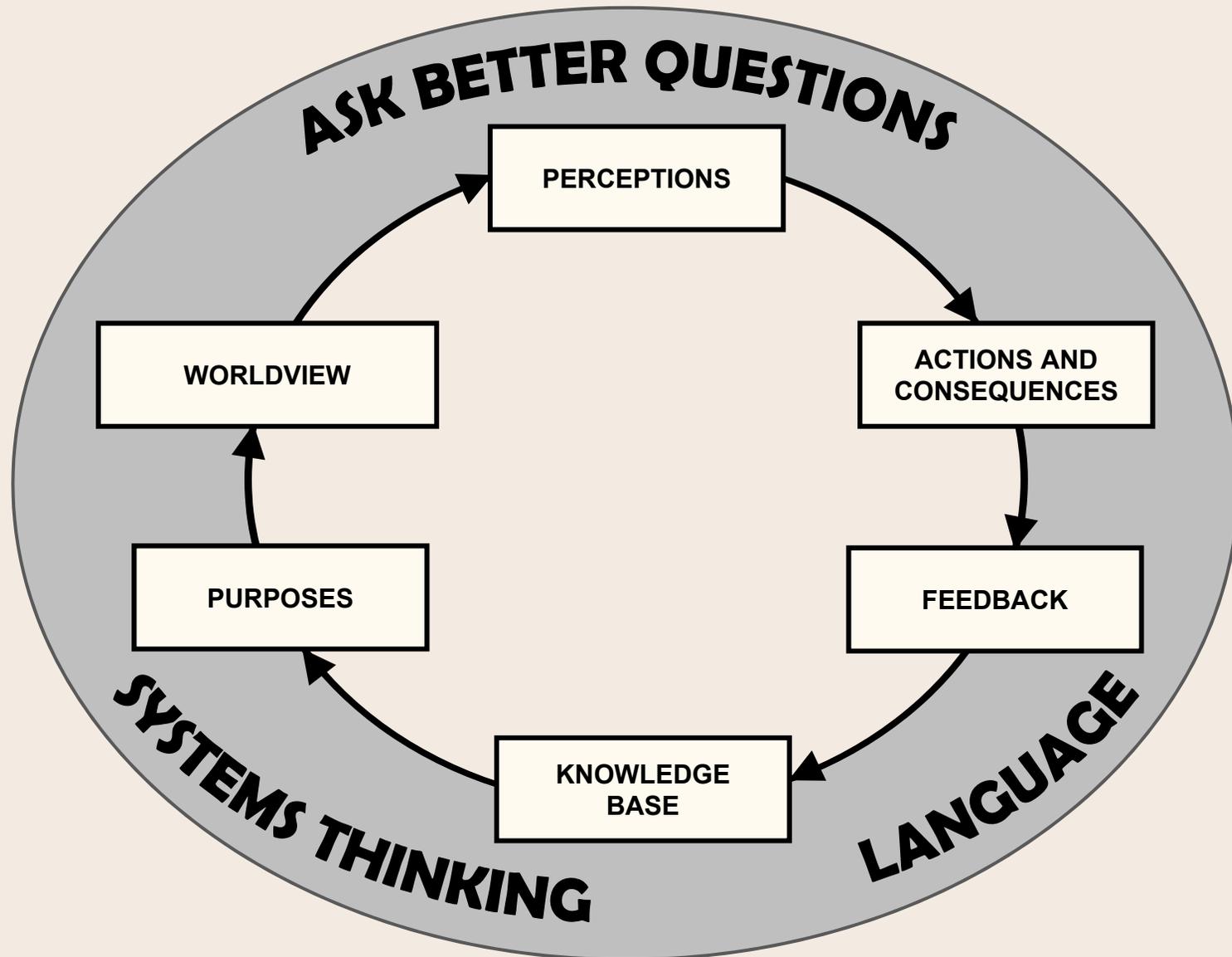


DEERE 1960 TO 2024

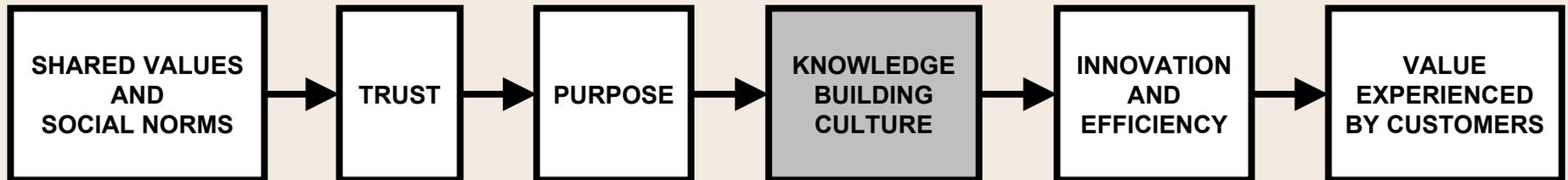


Source: Holt Global Database

THE KNOWLEDGE BUILDING LOOP



CAUSAL PREREQUISITES FOR SUSTAINED VALUE CREATION



“If you want to have passion and energy in your life, you must have a sense of purpose in your work. ... I ask the employees of BB&T: Are you truly making the world a better place to live through your work? Are you really helping your clients achieve economic success and financial security? Are you providing the quality of advice that ensures that they make better decisions? You should never do anything that you believe will not be in your client’s best interest, even if you can make a profit in the short term. ... Life is about creating win-win relationships.”

John A. Allison. CEO BB&T

PRAGMATIC THEORY OF THE FIRM IN PRACTICE

