THE PRAGMATIC THEORY OF THE FIRM

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FOUR ESSENTIAL CRITERIA FOR EVALUATING A THEORY OF THE FIRM

- Facilitates systems thinking
- Clarifies the purpose of the firm
- Identifies the critical determinant of the firm's long-term performance
- Connects the firm's long-term performance to market valuations and shareholder returns

THE PRAGMATIC THEORY OF THE FIRM
THE FIRM’S PURPOSE

#1 Communicate a vision

#2 Survive and prosper

#3 Sustain win-win relationships

#4 Take care of future generations

Maximizing shareholder value is the *result* of achieving four-part purpose

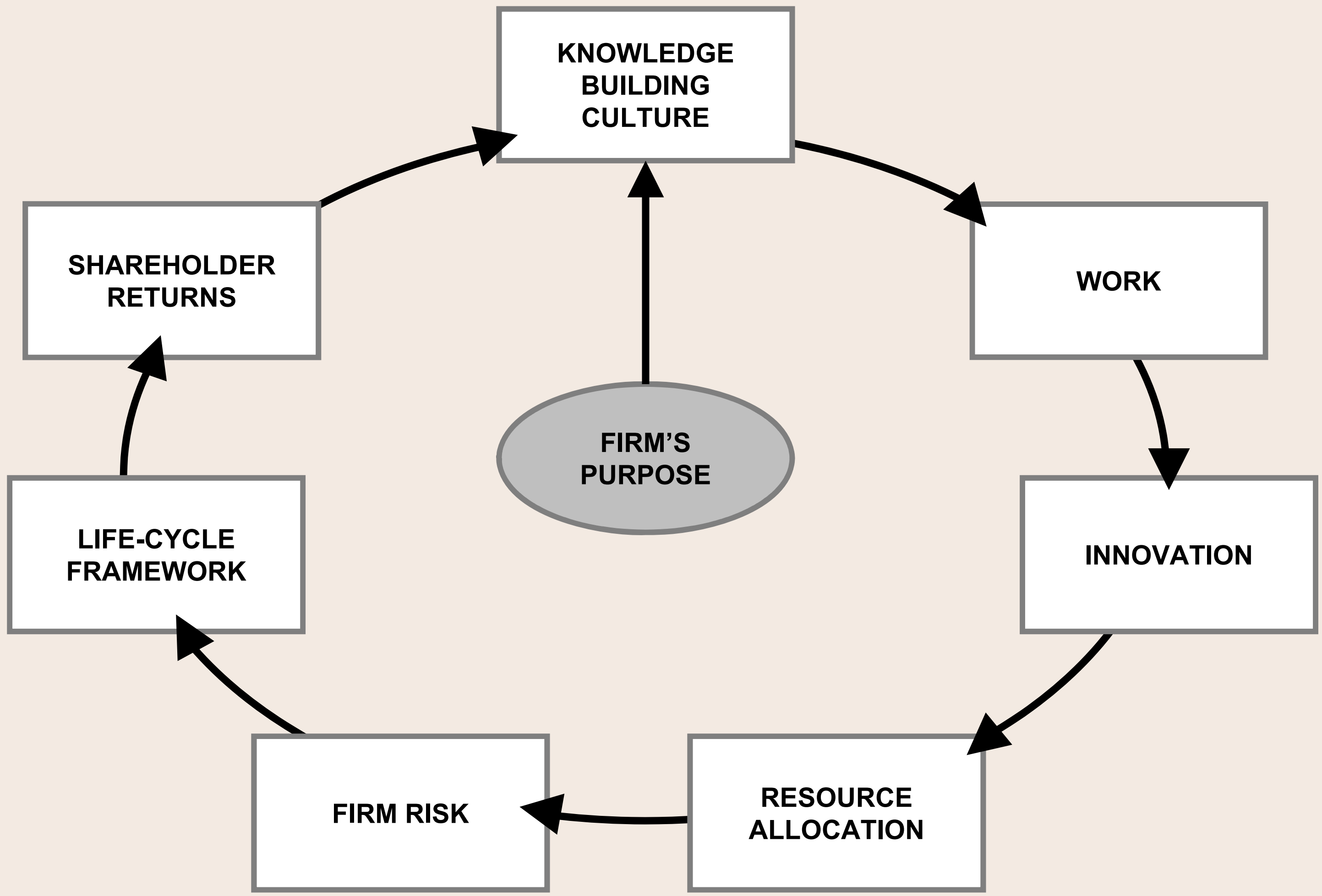
BEST PERFORMING LARGE BANK DURING 2008 CRISIS
BB&T CEO JOHN ALLISON

“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?

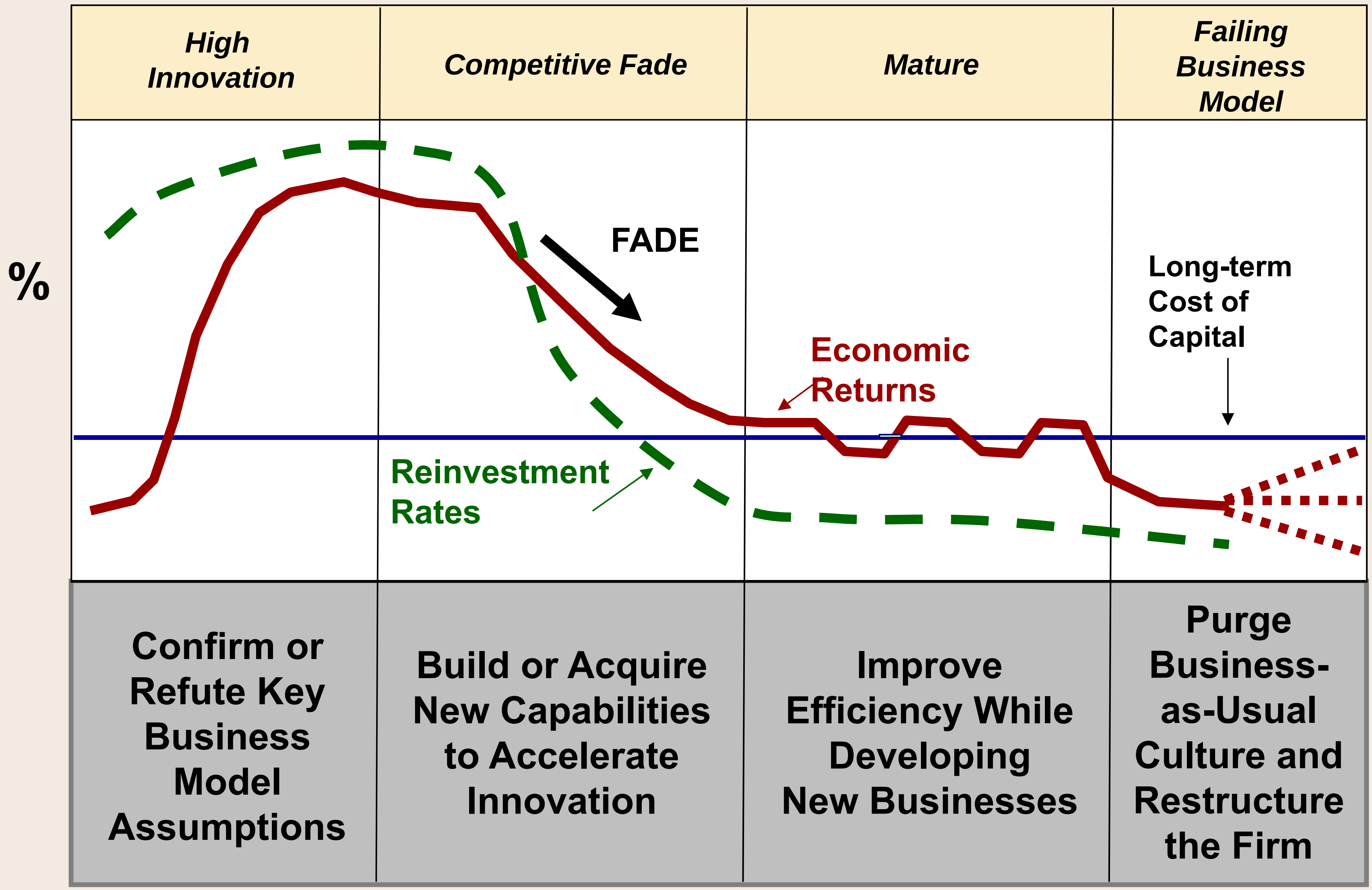
You should never do anything that you believe will not be in your client’s best interests, even if you can make a profit in the short term … **Life is about creating win-win relationships.**”

Allison (2013) p. 241

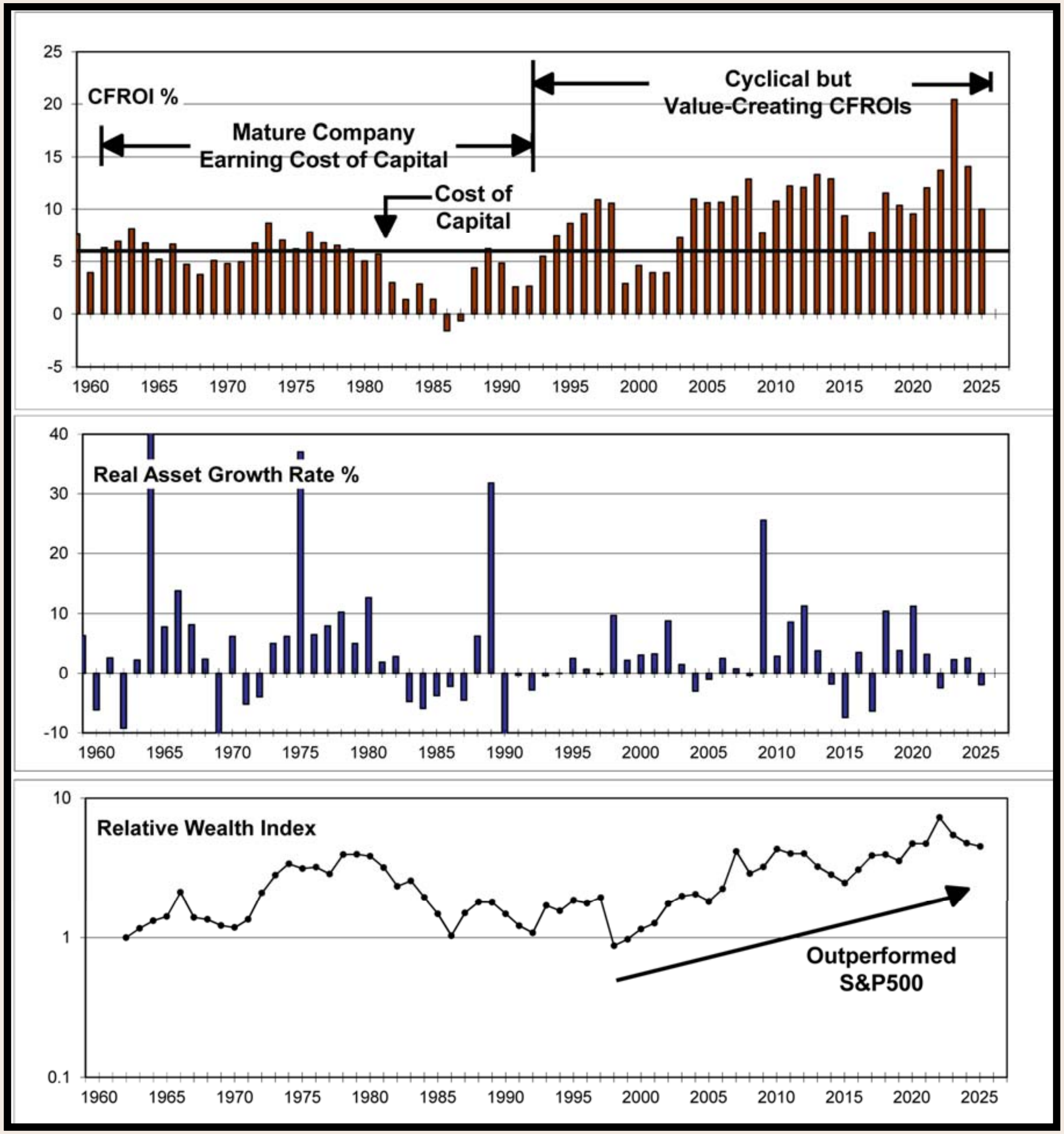
COMPONENTS OF THE PRAGMATIC THEORY OF THE FIRM



LIFE-CYCLE STAGES AND MANAGEMENT PRIORITES

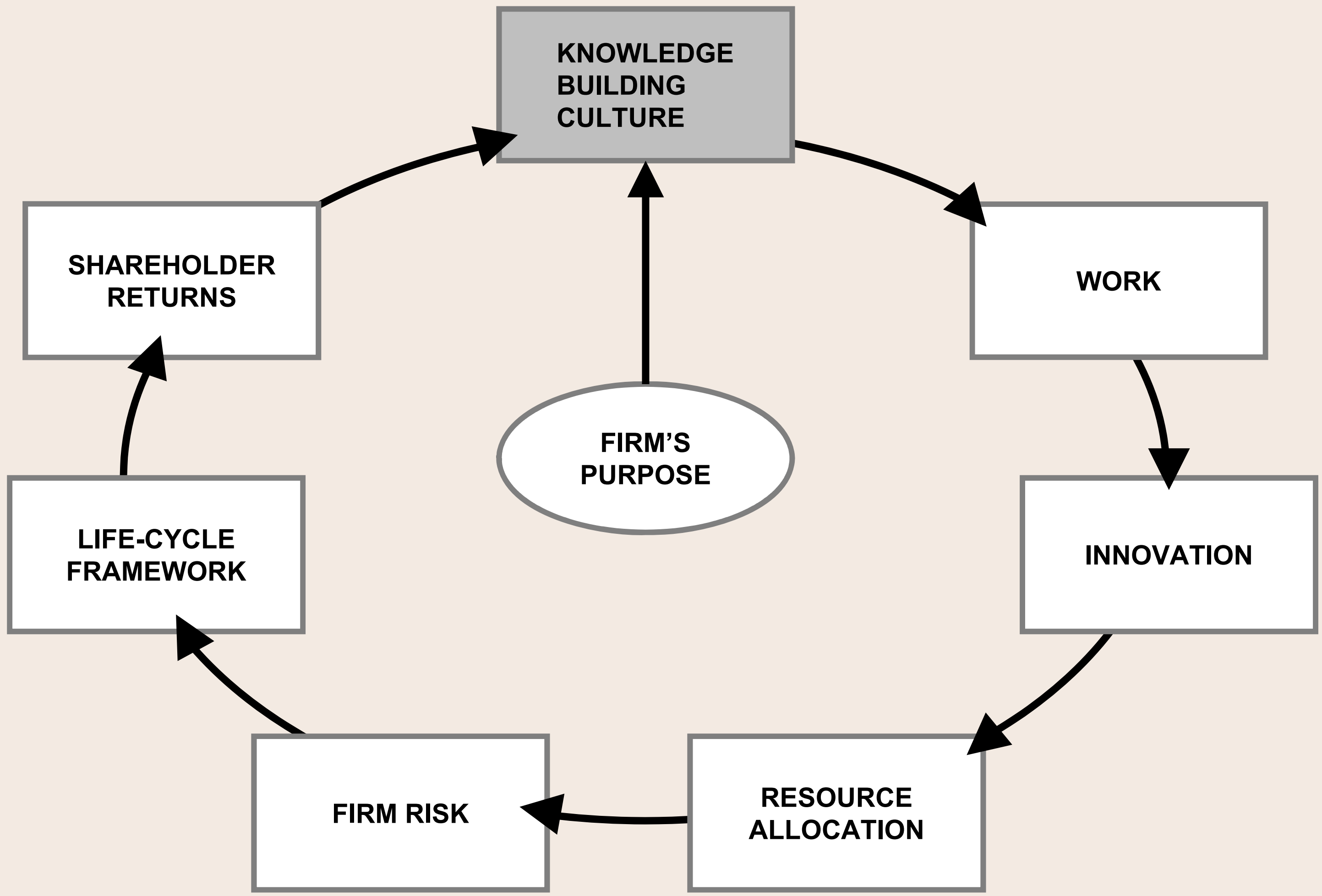


DEERE 1960 TO 2025

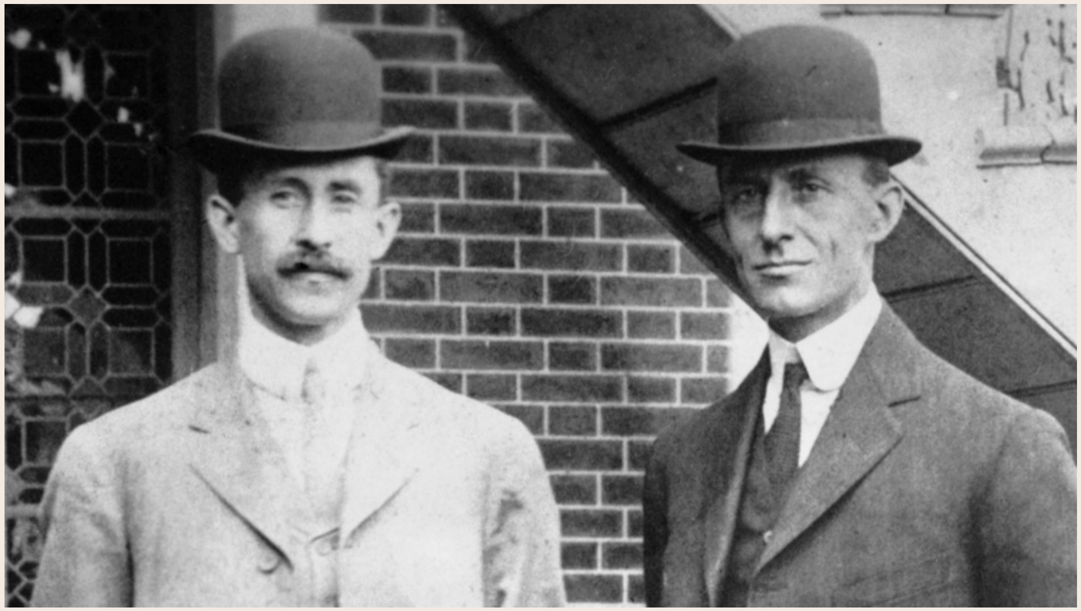


Source: UBS HOLT global database.

COMPONENTS OF THE PRAGMATIC THEORY OF THE FIRM

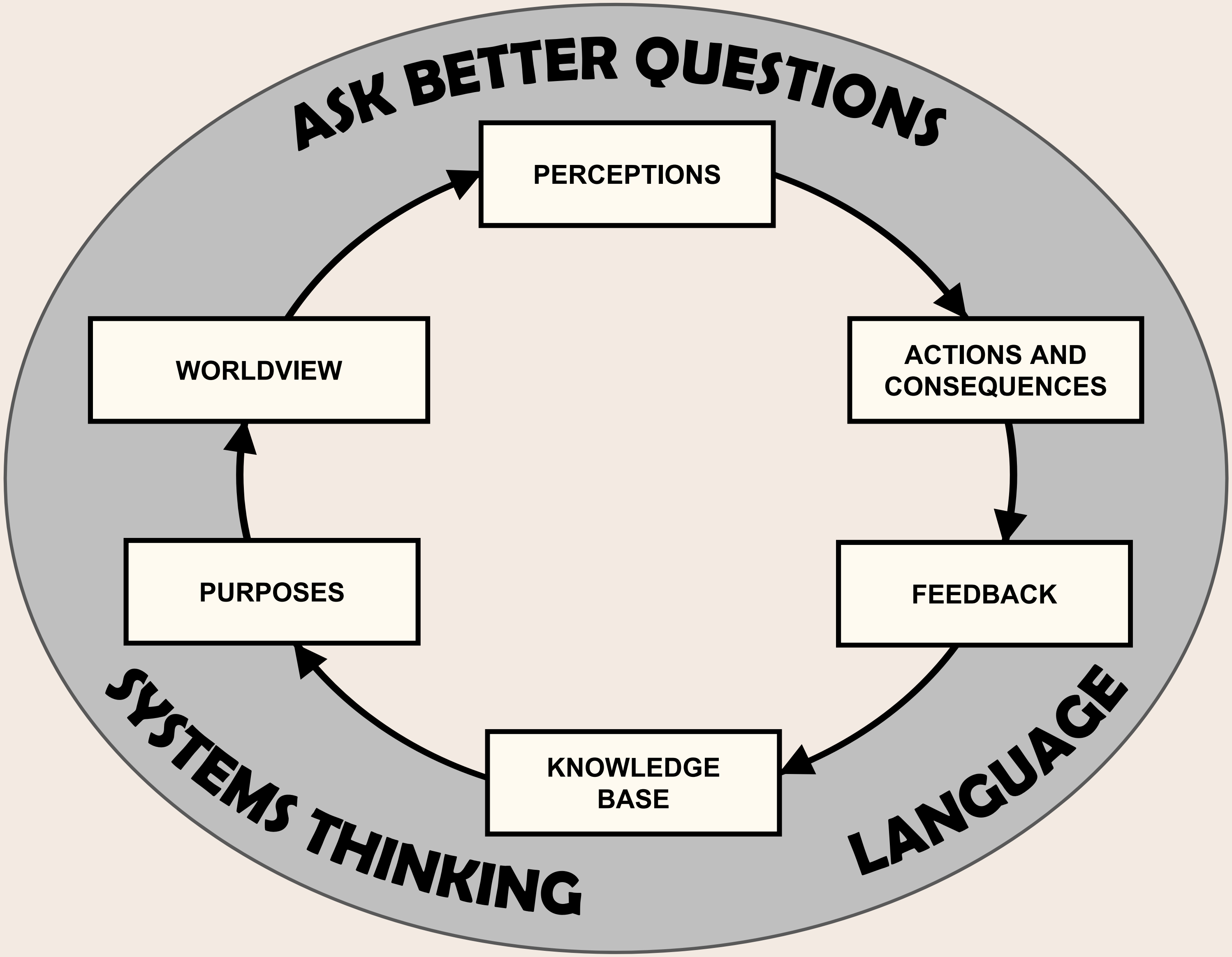


ORVILLE AND WILBUR WRIGHT, 1903, TAUGHT THE WORLD HOW TO FLY



The Knowledge Building Loop provides a better way of analyzing the knowledge-building process

THE KNOWLEDGE BUILDING LOOP



IMPORTANT TAKEAWAYS

- FOUR-PART PURPOSE
  - Vision
  - Survive and Prosper
  - Win-win Relationships
  - Future Generations

- Pragmatic Theory of the Firm Facilitates Systems Thinking

- Life-Cycle Framework
  - Connects Performance Measurement, Management Priorities, and Resource Allocations

- Knowledge Building Culture is Key Determinant Long-Term Performance