

(continued from front flap)

The Pragmatic Theory of the Firm uses a life-cycle framework that connects a firm's financial performance to its market valuation and long-term shareholder returns. Throughout this book, life-cycle track records for game-changing firms are displayed that not only provide a visual, intuitive explanation of how the stock market works, but also capture the uniquely important role of intangible assets that dominate value creation in the New Economy.

The key to sustained progress for the firm and all its stakeholders and society is a knowledge-building culture coupled with a relentless focus on long-term value creation by management and the board.

**BARTLEY J. MADDEN** is an independent researcher. He retired as a managing director of Credit Suisse HOLT after a career in investment research and money management that included the founding of Callard Madden & Associates. His early research was instrumental in the development of the cash-flow return on investment (CFROI) valuation framework. Today, Credit Suisse HOLT delivers the CFROI framework and related global database to money management organizations worldwide. Madden's current work (see [www.LearningWhatWorks.com](http://www.LearningWhatWorks.com)) involves innovative initiatives in public policy and education.

PRAISE FOR

## VALUE CREATION PRINCIPLES

"In *Value Creation Principles*, Madden introduces the Pragmatic Theory of the Firm that positions the firm as a system fueled by human capital, innovation, and, at a deeper level, imagination. He challenges us to understand how we know what we know in order to better discover faulty assumptions that often are camouflaged by language. His knowledge building loop offers guideposts to design experiments and organize feedback to facilitate early adaptation to a changed environment and to avoid being mired in ways of thinking rooted in 'knowledge' of what worked well in the past—a context far different from the context of today. His book explains a way of being that enables those who work for, or invest in, business firms to see beyond accounting silos and short-term quarterly earnings and to focus on capabilities instrumental for creating long-term future and sustainable value for the firm's stakeholders. I can't recommend this astounding book enough especially given its deep and timely insights for our world today."

—**John Seely Brown**, former Chief Scientist for Xerox Corp and Director of its Palo Alto Research Center (PARC); co-author with Ann Pendleton-Jullian of *Design Unbound: Designing for Emergence in a White Water World*

"In contrast to existing abstract theories of the firm, Madden's pragmatic theory of the firm connects management's decisions in a practical way to a firm's life cycle and market valuation. The book promotes a firm's knowledge building proficiency, relative to competitors, as the fundamental driver of a firm's long-term performance, which leads to insights about organizational capabilities, intangible assets, and excess shareholder returns. *Value Creation Principles* is ideally suited to facilitate progress in the New Economy by opening up the process by which firms build knowledge and create value, which is a needed step in revising how neoclassical economics treats the firm."

—**Tyler Cowen**, Professor of Economics, George Mason University; co-author of the popular economics blog *Marginal Revolution*

"Bartley Madden rightfully points out that both textbook and more advanced economic theories of the firm fail to address the concerns of top management and boards of directors. He offers a tantalizing pragmatic alternative that directly connects to quantitative changes in the firm's market value. His framework gives recognition to the importance of intangible assets, and his pragmatic approach is quite complementary to the Dynamic Capabilities framework that strategic managers implicitly and sometimes explicitly employ."

—**David J. Teece**, Thomas W. Tusher Professor in Global Business, Faculty Director, Tusher Center for the Management of Intellectual Capital, Haas School of Business, University of California, Berkeley

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VALUE CREATION PRINCIPLES

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# VALUE CREATION PRINCIPLES

THE PRAGMATIC THEORY OF  
THE FIRM BEGINS WITH PURPOSE AND  
ENDS WITH **SUSTAINABLE CAPITALISM**

**BARTLEY J. MADDEN**

**WILEY**

**W**hy do some firms thrive in fast-changing environments while others fail? The Pragmatic Theory of the Firm, as revealed in *Value Creation Principles*, explains how a firm's long-term survival and prosperity depend on its knowledge-building proficiency relative to competitors.

Author Bartley J. Madden provides a particularly timely and comprehensive understanding of firm performance by treating the firm as a system of connected activities. He explains why attention to how we build knowledge offers insights into how we can improve business performance, including the performance of top management and the board of directors.

Industries can and do change dramatically. Capabilities that benefit a firm now could be much less valuable in the future. Management's fundamental task, as explained by Madden, is to nurture and sustain a knowledge-building culture so that management can continually adapt to a changing world. When knowledge building becomes an integral part of every employee's job, both job satisfaction and retention of key employees improve. Such a culture unleashes creativity and motivates employees to solve problems (and create new opportunities) through discovering obsolete assumptions and unraveling root causes.

(continued on back flap)