



The AMBACHTSHEER Letter

Sustainable Pension Design • Effective Pension Management

November 2025

“VALUE CREATION INSIGHTS”

Bartley J. Madden’s New Book on How Organizations Build Knowledge and Create Value

“On first impression, Bartley Madden’s new book appears to be yet another book about how companies can create value. But it is actually something much simpler, yet more profound. A series of insights by a shrewd analyst, gained over a half century of examining what works, what doesn’t, and why. Madden’s system-based analysis makes you wish you had read this book earlier in your career, no matter where in your career you are now.”

Jon Lukomnik, Managing Partner
Sinclair Capital

“Bartley Madden’s Pragmatic Theory of the Firm is aligned with how we believe great companies are built. As long-term active investors, we are committed to understanding how companies focus on the critical attributes of culture and innovation regardless of how difficult they can be to measure. We believe deep research and analysis of how a company operates and is managed provides long-term investors unique economic opportunities because they are not always obvious to see. We are also encouraged by Bartley’s ability to articulate ‘what it takes’ to be a great company. It is an excellent piece of work that helps demonstrate why we do the home work to identify these core principles and how we think about creating value in client portfolios. The investment world has become so short term and has unappreciated the importance of accountability to stewardship. This book helps bring it to life, and we applaud Bartley for making it so clear!”

Carol Geremia, President
MFS Investments

“Investment theories to date have largely been mathematical propositions, connecting risk and return quantitatively. What has been missing are verbal propositions that logically and intuitively connect investment returns to the drivers of those returns. Bartley Madden’s new book offers such a tangible proposition with his Pragmatic Theory of the Firm. The theory proposes a four-dimensional firm purpose, whereby maximizing firm value is best positioned not as the purpose of the firm, but as the result of the firm successfully achieving its purpose. This integrated framework is indeed pragmatically logical and intuitive. Even better, its insights and action implications are equally powerful for academics and students, for board members and executives, and for institutional investors and their clients.”

Keith Ambachtsheer, President
KPA Advisory Services

Much Praise for Madden’s New Book

The quotes above were just three of nine featured in the opening pages of Bartley Madden’s new book “Value Creation Insights”. The other six were from well-known (and well-published) academics, which included views such as:

- * A compelling and powerful account of a systems approach to business.
- * The pragmatic theory's emphasis on knowledge-building proficiency shows that long-term, sustainable performance starts by motivating and enhancing specific capabilities of those closest to the firm's value-creating work.
- * The book argues that firms should articulate an inspiring vision, emphasize knowledge-building, foster strong interrelationships inside and outside the firm, consider the interests of future generations, and challenge command and control thinking.
- * Madden convincingly argues that agency theory is unable to capture value creation in the modern economy driven by innovation, rapidly evolving technologies, and intangible assets.
- * I often cite Madden's work because his ideas change people's perspectives for the better. His redefinition of 'firm risk' is critical, especially as he integrates it with his Life-Cycle of the Firm and his Knowledge-Building Loop.
- * Madden's book delivers a theoretically-sound and practically useful theory of the firm that deserves to be taught in business schools. Over many years he has presented the key ideas in his new book *Value Creation Insights* to my MBA students. I am also recommending it to the business leaders and entrepreneurs I advise.

In the book's Foreword, Madden offers his own views on the book's key problem-solving insights. He believes there are six.

Madden on the Book's Six Key Problem-Solving Insights

1. Knowledge building and value-creation are opposite sides of the same coin. Deeper understanding of customers' pain points leads to better serving them. Deeper understanding of a technical problem in manufacturing leads to more quickly correcting it. Generally, knowledge improvements are prerequisites to creating value.
2. Systems thinking provides actionable insights. It clarifies goals, interrelationships among the system's parts, and critical constraints to goal achievement. It helps discover faulty policies and obsolete assumptions. It also fosters constructive skepticism about what we think we know.
3. The 'Pragmatic Theory of the Firm' provides a more insightful understanding of a firm's history, its competitive advantages (if any), and its shareholder returns. A deeper systems understanding of how a firm operates sets the stage for exploring new value creation opportunities.
4. The Knowledge-Building Loop creates organizational context, sees looming problems more quickly, generates new perspectives, and asks better questions.
5. Language is perception's silent partner. Clarity offers a pathway to disentangle fuzzy or obsolete assumptions.
6. Learning to experience alternative ways of seeing things broadens an individual's world view. This helps in choosing relevant data to analyze, and in developing effective solutions.

Given that the stated purpose of this publication has long been to foster innovative thinking and decisions related to pension design, governance, and investing, a legitimate question at this point is: how can Madden's book "Value Creation Insights" help with this? We believe in two fundamental ways:

1. Create more effective pension organizations
2. Become more effective investors of retirement savings

We elaborate on each in turn.

More Effective Pension Organizations

The 'Pragmatic Theory of the Firm' begins by clarifying an organization's purpose. These four mutually reinforcing objectives constitute organizational purpose and should be guideposts for management:

1. Communicate a *vision* that can inspire and motivate employees to work for the organization, committed to behaving ethically and making the world a better place.
2. Strive to *become more effective through continual gains in efficiency and sustained innovation*, which depend on the organization's knowledge-building proficiency.
3. Work continuously to *sustain win-win relationships* with all of the organization's stakeholders.
4. *Take care of future generations* with a commitment to ensure the organization's value-creation processes are sustainable in the long term.

These four organizational objectives are based on three core beliefs:

1. The four objectives are mutually reinforcing in articulating the organization's purpose.
2. In commercial organizations, maximizing shareholder value is best positioned as the result of achieving its four-part purpose.
3. Sustaining a culture of knowledge-building proficiency is the critical determinant of an organization's long-term success in achieving its purpose.

Placing Madden's organizational objectives and core beliefs in a pensions context, the vision is to deliver adequate and sustainable post-work lifetime income at a reasonable cost. This is achieved through *continual gains in organizational innovation and efficiency*, which depend on its knowledge-building proficiency. It also means creating and sustaining *win-win relationships* with governments, regulators, plan member employers, and with plan members themselves. An important plan member consideration is *intergenerational solidarity* between younger workers, older workers, and retirees.

The evolution of 'the pension deal' in Canadian public sector occupational pension plans is a good example of achieving these gains in organizational innovation and efficiency. For decades, the risks of traditional defined benefit (DB) plans were fully borne by current and future tax payers. Specifically, pensioners received inflation-indexed, pre-defined pension benefits, with the risk of funding shortfalls borne by current and future tax-payers through increases in the plan contribution rate. Some 25 years ago, this traditional 'pension deal' began to change with a growing consensus that current and future plan members should also bear some of the sustainability risk embedded in traditional DB plans.

This has resulted in many traditional DB plans converting to Target Benefit (TB) Plans, with the degree of inflation protection for pensioners conditional on the Plan's funded status. This makes them co-risk bearers in TB Plans. Our May 2025 *Letter* was devoted to this topic with the title "[Can Pension Organizations Innovate? The Extraordinary Case of CAAT Pension Plan](#)". CAAT has been offering its version of a TB Plan to private sector employers since 2017. As a result, it now has more private sector employers as clients (704 with 60,400 employees) than its colleges clients (45 with 27,800 employees). A related development is the provision of lifetime income through linking Variable Payment Life Annuities (VPLAs) to traditional Defined Contribution (DC) Plans. For more on this innovation, see our November 2024 *Letter* titled "[How Do We Pay Better Pensions To More People? Why The Variable Payment Life Annuity May Be Our Best Answer.](#)"

More Effective Investors of Retirement Savings

Recent *Letters* have also been exploring the concept of *Ownership Investing*. For example, the September 2025 *Letter* title was “[Investing as Owners Rather Than Traders: How Pension Funds Can Transform Capitalism](#)”. It argued that if pension funds invested with an ownership mentality rather than a trading mentality, their focus would shift from ‘beating the market’ through clever trading strategies, to instead focusing their attention on identifying and owning companies with long term innovative, productive, value-generating mindsets and strategies.

Such a fundamental investor mind shift raises an obvious question: what posts could be used to guide ownership investors in finding such companies, and encouraging them to become (or continue to be) long-term value creators? Enter Madden’s ‘Pragmatic Theory of the Firm’. Recall that its four mutually-supportive success drivers combine vision, knowledge-building proficiency, building win-win relationships, and thinking intergenerationally. These are the guide-posts that drive sustained organizational value creation.

Can investment processes that embody these features be set up in the real world? The answer is YES. Madden’s book identifies firms that actually live his ‘Pragmatic Theory of the Firm’ (*Intuit, Nucor, Haier Group, Bayer AG*), and one that died from not adopting its success drivers (*Eastman Kodak*). My September 2025 *Letter* describes the 40-person *Value Creation Group (VCG)* at *CPP Investments* that has a mandate to assess the value-creation potential of its portfolio companies and to suggest measures to improve that potential. The *VCG* will no doubt find the ‘Pragmatic Theory of the Firm’ a useful tool in identifying portfolio companies with value-creation potential.

In Conclusion

Wikipedia defines ‘a theory’ as “*a systematic and rational form of abstract thinking about a phenomenon. It involves contemplative and logical reasoning, often supported by processes such as observation, experimentation, and research.*”

By this standard, Madden’s ‘Pragmatic Theory of the Firm’ easily passes *Wikipedia*’s theory definition test. More importantly, it is a genuinely useful guide to what is required to raise the organizational effectiveness of pension organizations in two ways. Properly positioned, it can foster better pension design and delivery. It can also revitalize the process of investing retirement savings.

Keith Ambachtsheer

Madden’s book “Value Creation Insights” can be ordered [HERE](#).

Madden’s 25 minute video about his book can be accessed [HERE](#).

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