23 September 2026

VALUE CREATION MINDSET

Introduction to a Three-part Video Course

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A three-part video course has been developed that summarizes key ideas from my research journey that began in 1970. That research is focused on two foundational questions. First, how do firms succeed or fail in creating long-term value? Second, how best to connect a firm's long-term performance to its market value and shareholder returns? My work in answering these questions evolved into the Pragmatic Theory of the Firm.

Don't be turned off by the word 'theory.' A viable theory is a way of thinking that helps us see the world more clearly, clarify problems and approaches to solutions, and improve our decision-making. By understanding the value creation process, we gain a bottom-up view of how firms are the engine of economic prosperity.

The Pragmatic Theory of the Firm clarifies the firm's purpose and positions maximizing shareholder value not as the purpose of the firm but as the result of a firm successfully achieving its purpose. One result of this way of thinking is confidence in knowing what it takes for firms to create long-term value and in supporting a commitment to live the life of a value creator. That understanding sees through the seemingly never-ending debates about shareholder capitalism versus stakeholder capitalism and socialism versus capitalism.

I was fortunate to develop and promote this course in partnership with Principled Business, a 501 c (3) organization. Their mission is to enhance the understanding of free-market capitalism by business leaders; assist them in applying the foundational principles of capitalism in their firms; and energize people to engage with their local communities and to effectively communicate the widespread benefits delivered by firms that create long-term value. Principled Business delivers the course by way of a comprehensive educational package (resembling a classroom experience with discussion) www.PrincipledBusiness.org. The videos are also accessible via my website, www.LearningWhatWorks.com.

The Part 1 video lays out the Pragmatic Theory of the Firm that views the firm as a holistic system and explains the key components of the purpose for the firm. The firm's knowledge-building culture is the critical determinant of a firm's long-term value creation success. The life-cycle framework is presented and serves as much-needed tool to connect firms' financial performance to stock market valuations and shareholder returns. Parts 2 and 3 focus on analyzing the long-term life-cycle track records for a group of well-known firms, including Amazon, Walmart, and Nvidia. Expect to gain insights about the deeper causes of firms' long-term performance and, in general, experience the benefits of viewing the firm as a holistic system via the Pragmatic Theory of the Firm. The Part 3 video focuses on three firms in analyzing the growing trend to transition from command-and-control organizational structures to flatter structures. This topic should be a high priority for boards of directors and management since it can lead to significant benefits to all of the firm's stakeholders.

Bottom-up Understanding of a Flourishing Society

There is a prerequisite to firms being the engine of economic prosperity. And that is a society that facilitates both the startup of new businesses and their ongoing operations; plus, safeguarding the voluntary exchange and ownership of private property; and maintaining sound money and a tax system supportive of long-term value creation. In other words, economic freedom. Its importance is reflected in the empirical observation that people in the freest quartile of countries live about 17 years longer than those in the least-free quartile.[1]

An important takeaway from this course is an appreciation for how firms create long-term value dependent upon a culture that enables freedom for employees to experiment and continually build up their problem-solving skills while solving problems that matter. Consequently, employees contribute to the firm's success and, in so doing, make the world a better place. When a firm's culture is right, work becomes meaningful. Work becomes more than a paycheck. This is the heart of a flourishing society. Viktor Frankl made a relevant point when he noted that people are pushed by drivers (e.g., monetary incentives) but pulled by meaning.[2] The Pragmatic Theory of the Firm facilitates the nurturing and sustaining of the right culture.

One of the firms analyzed in the course is the preeminent steel manufacturer Nucor. Ken Iverson was CEO for 30 years and orchestrated Nucor's culture. In his autobiography, Iverson noted: "We anticipate that roughly half our investments in new ideas will fail. …we built Nucor under the assumption that most of the genius in our firm is found among the people doing the work. …we focus on shaping an environment that frees employees to determine what they can do and should do, to the benefit of themselves and Nucor."[3]

Capitalism

I use the term 'capitalism' as synonymous with 'free-market capitalism' as distinct from crony capitalism that enables those with political connections to promote laws and regulations that advantage their firms at the expense of competitors and puts roadblocks in front of potential future competitors. As to inequality, a strong case can be made that people feel more strongly about fairness than inequality.[4]

Crony capitalism is piloted by exceedingly rich and powerful people, including entrepreneurs who built businesses from the startup stage. Their influence on the political process is immense. Laws and regulations that cement the status quo silently operate providing an unfair competitive playing field inconsistent with an opportunity rich society. Ask yourself if the laws and regulations that followed the 2008 financial crisis favored big banks to the detriment of smaller competitors?

The philosopher David Schmidtz provides an insightful view:

> Society is not a race. In a race, people need to start on an equal footing. Why? Because a race's purpose is to measure relative performance. By contrast, a *society's* purpose is not to measure relative performance but to be a good place to live. To be a good place to live, a society needs to be a place where people do not face arbitrary bias or exclusion. In liberal society at its best, women, men, blacks, whites, and people of all religions have a real chance to live well, as free and responsible individuals. People need a good footing, not an equal footing.[5]

Digging deeper, the argument for socialism is based on a mechanistic view of the economy (and the firm) that ignores systems thinking, knowledge-building, and long-term value creation. Proponents of socialism fail to understand how we benefit from free-market capitalism. That this is important is noted by Eric Beinhocker and Nick Hanauer:

> Markets are evolutionary systems that each day carry out millions of simultaneous experiments on ways to make our lives better. In other words, *the essential role of capitalism is not allocation—it is creation.* Life isn't drastically better for billions of people today than it was in 1800 because we are allocating the resources of the 19th-century economy more efficiently. Rather, it is better because we have life-saving antibiotics, indoor plumbing, motorized transport, access to vast amounts of information, and an enormous number of technical and social innovations that have become available to much (if not yet all) of the world's population. The genius of capitalism is that it both creates incentives for solving human problems and makes those solutions widely available. And it is solutions to human problems that define prosperity, not money.[6]

Widespread adoption of the Pragmatic Theory of the Firm, as explained in this three-part video course, would be a major step forward to transcend the polarization epitomized by capitalism versus socialism or Republican versus Democrat. In so doing, we can build a more civil society where we seek to build knowledge, to create value for others, and to ensure that everyone has a good footing.

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[1] 2025 annual report by the Fraser Institute, "Economic Freedom of the World."

[2] Viktor Frankl, 1959. *Man's Search for Meaning*. Boston: Beacon Press.

[3] Ken Iverson. 1998. *Plain Talk: Lessons from a Business Maverick.* Hoboken, NJ: John Wiley & Sons.

[4] Christina Starmans, Mark Sheskin, and Paul Bloom. 2017. "Why people prefer unequal societies." *Nature Human Behavior.* Vol. 1 article 82.

[5] David Schmidtz. 2006. *Elements of Justice.* Cambridge: Cambridge University Press.

[6] Eric Beinhocker and Nick Hanauer. 2014. “Redefining capitalism.” *McKinsey Quarterly.* September.