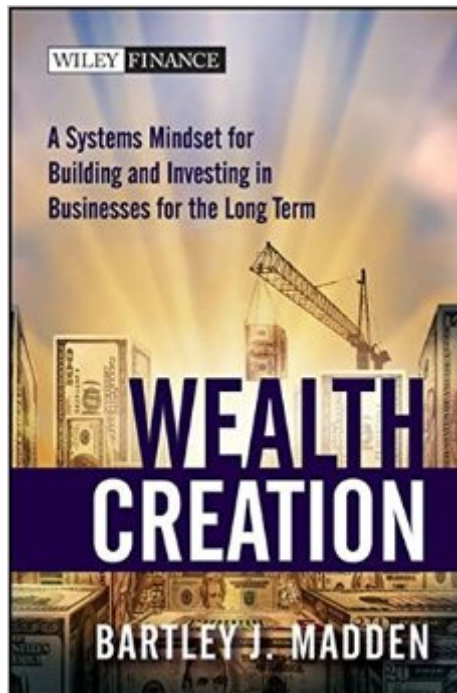


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# Wealth Creation: A Systems Mindset For Building And Investing In Businesses For The Long Term



## Synopsis

Wealth creation insights by the creator of the company life-cycle framework known as the CFROI valuation model. Investors searching for companies whose future profitability will far exceed that implied in current stock prices, those in business making decisions to improve company performance, and politicians crafting legislation-all use some form of a wealth creation framework. In this book, author Bartley Madden addresses how to think about the complex dynamics in generating wealth and the practical benefits to be gained from upgrading one's wealth creation framework. Throughout these pages, Madden shares six critical insights: A systems mindset focuses not so much on the individual pieces of a system, but on how all the pieces work together to achieve the goal envisioned for the system. The systems way of thinking described in *Wealth Creation* helps to avoid unintended, bad consequences, and to generate insights for leveraging change that produces big gains in wealth. Economic systems -- the rules and relationships that exist to create wealth by delivering value to customers -- are devilishly complex and therefore solving economic problems requires extensive knowledge. Seen in this light, knowledge growth and wealth creation are two sides of the same coin. A prerequisite to making better buy/hold/sell investment decisions and business judgments is an improved understanding of how wealth is created. An especially useful approach described in this book is to connect business firms' financial performance to stock prices via the firms' competitive life-cycle framework. A deeper understanding of business firms makes it plain that customers, employees, and shareholders have mutual, long-term interests. In other words, a free-market system geared to serving customers through competition is a system in which participants share the wealth that is jointly created. There is a huge opportunity for sustained, higher economic growth through voluntary initiatives by the private sector. One initiative involves an accelerated implementation of lean management, which was pioneered by Toyota. This is a systems approach that continually purges waste and optimizes the use of resources in delivering value to customers. The other initiative concerns improved corporate governance. The wealth creation principles discussed in this book offer a blueprint for boards of directors to vastly improve how they fulfill their responsibility to shareholders, and in so doing, improve the performance of corporate America. These ideas have taken shape as a natural outgrowth of a commercial research program that began in 1969 at Callard, Madden & Associates focused on how to value business firms. It produced the CFROI (cash-flow-return-on-investment) metric and its related life-cycle valuation model. This work was further advanced at HOLT Value Associates, which was later acquired by Credit Suisse in 2002. Credit Suisse HOLT continues the research to improve the valuation tools and related global database that analyzes 20,000 companies in over 60 countries.

This system is used by a large number of institutional money management firms worldwide in order to make better investment decisions.

## Book Information

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## Customer Reviews

Bart Madden has written a book that steps back from the details of financial analysis to look at the big picture of how wealth is created, wealth for everyone in the society. Here is a man whose claim to fame is developing insights and creating tools to better understand and analyze financial data, who pulls from a lifetime of experience to explain what lies behind these data. He steps away from balance sheets and stock reports to show us how systems thinking, the life-cycle perspective, and lean organization are critical to the effective working of our free market system. Madden builds his perspective on some foundational principles that are not generally thought of when people consider corporate performance and capital markets: The notions that WEALTH CREATION == VALUE TO CONSUMERS and CAPITAL == EMBODIED KNOWLEDGE are not points of view that one finds articulated in the pages of the Wall St. Journal, Forbes, or even The Economist. They are, however, well documented in the data on economic performance and valuation presented in the book and in the long view that Madden advocates, in opposition to the short-term passions and immediate problems that color most people's identification of what's important. As Madden clearly states (p. 21), the basis for the appeal of these ideas is that they aim at recreating, through the reforms in corporate governance and public policy that he advocates, a system whose benefits "are delivered to all members of [the] society," not for the narrow privilege of a few.

Madden combines several concepts like systems theory, lean production, Deming's Plan-Do-Check-Act learning cycle, key performance variables (metrics) and a valuation model with greater emphasis on the cost of capital (including human capital) into a "competitive life-cycle" view of the firm. Companies that adopt Madden's methodology should be better able to overcome Schumpeter's model of high innovation followed by competitive fade, maturity and eventual failure. Shareowners are more likely able to key in on valuation issues using a longer-term perspective and are likely to be less startled with earnings surprises using Madden's framework. Madden argues against "fair value" accounting, arguing that a measure of economic return should express what was received, against what was given up. That can't be properly measured if the original cost outlays are unavailable but supplementary information on estimated market value would be a plus. Although he recognizes the need to account for intangibles (especially around human capital), he provides little guidance in this area other than recommending that whatever definitions are utilized should be tagged using XBRL to enable fine-grained analysis. However, one slim volume can't be faulted for not providing detailed guidance to every step in a recipe. The book includes a helpful chapter on corporate governance where he calls most management arguments against greater shareowner involvement like their supposed short-termism "a smoke screen because the plain fact is that CEOs want to either hand-pick board members, or at least have veto power over nominees.

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