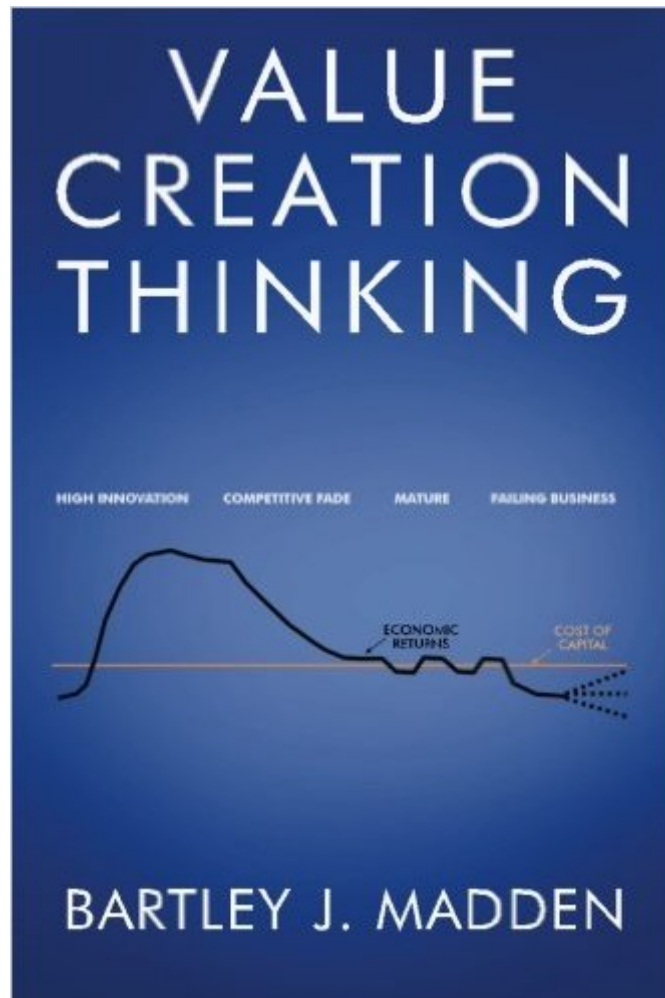


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# Value Creation Thinking



## Synopsis

"In a world where short-term thinking has taken hold for too many managers and investors, Value Creation Thinking provides a much needed perspective on the key drivers of long-term value. Madden unites the fundamentals of financial valuation with a unique emphasis on corporate purpose, culture, and knowledge. Based on decades of research and practice, Value Creation Thinking sheds light on enduring sources of competitive advantage and exposes how traditional business thinking and accounting practices often distract managers and investors from sustained performance. By speaking the language of both shareholders and stakeholders, Madden provides an important contribution to our understanding of capitalism at a critical moment, and an illuminating roadmap for the future of business." — Dominic Barton, Global Managing Director, McKinsey & Co.

## Book Information

Paperback: 240 pages

Publisher: LearningWhatWorks, Incorporated; 1 edition (May 26, 2016)

Language: English

ISBN-10: 0988596962

ISBN-13: 978-0988596962

Product Dimensions: 6 x 0.6 x 9 inches

Shipping Weight: 12 ounces (View shipping rates and policies)

Average Customer Review: 4.9 out of 5 stars — See all reviews — (7 customer reviews)

Best Sellers Rank: #92,029 in Books (See Top 100 in Books) #14 in Books > Business & Money > Finance > Corporate Finance > Valuation

## Customer Reviews

--Rawley Thomas 6-27-16 — normally is so prompt in responding to reviews, I was concerned that this one below might have gotten lost in the flow over the weekend. Please let me know.

Thanks.--Uniquely Connects Powerful Dots in an Eloquent Way--Disclosure: I was a co-founder — the "T" in HOLT Planning in 1985." Bart cofounded Callard Madden & Associates in 1970 and the principals of HOLT at one time all worked at Callard Madden. Bart taught me most all I know about cash flow valuation during the decades from 1980 to today. In 1992 HOLT Planning split into two entities: HOLT Value Associates headed by Bob Hendricks and the corporate advisory part acquired by The Boston Consulting Group. Bart rejoined HOLT Value in 1993 to continue its research. Credit Suisse acquired HOLT Value in 2002. Credit Suisse HOLT supplied the company historical track records for Value Creation Thinking.--Value Creation Thinking represents a "Tour du

Force" of Bart's evolution in deep thinking on his life's journey.--Purging obsolete assumptions represents the essence of value creation thinking. The purpose of the firm is not to maximize shareholder value; rather maximizing shareholder value is the result of achieving the firm's purpose. The firm's purpose becomes:

1. A stated vision that inspires employees to commit to making the world a better place.
2. Survive and prosper through continuous innovation and efficiency gains. Efficiency gains must produce operating returns that exceed the cost of capital.
3. Develop win-win relationships to achieve the firm's vision.
4. Take care of future generations.

Most finance and investing books are easy to review. This one was not. Most books keep within a sub-genre where they recycle and mix the usual concepts within the area. This book forced me to think about the philosophy of the firm in ways I hadn't before. The first sentence of the preface is "The ideas in this book reflect how my worldview evolved." • This text is the intellectual biography of Bartley Madden. In 1969 he co-founded a firm that would eventually lead to the HOLT framework used by Credit Suisse today. Madden's research, thoughts and work effort is a huge part of the valuation framework and database that is today used by thousands of portfolio managers around the world. Value Creation Thinking has three parts where the first sets the philosophical stage and the following two fill in practical details. As such the first part is more interesting. Madden starts with a defense of capitalism worthy of Milton Friedman. Then he presents his competitive life cycle view of the firm. Successful innovation initially creates high returns on invested capital but this will over time be competed away as other companies enter the profitable area. Next the author discusses the purpose of the firm and the tasks that managers must perform to fulfill this purpose. In short managers must 1) understand how value is created, 2) use resources efficiently and 3) create a knowledge-building corporate culture. From this they can set goals and execute on strategies. The second part of the book covers the third task above and the third part the first task. I broadly agree with these parts and have little to add. I will instead come back to the purpose of the firm. At any point in time the society has a limited productive capacity.

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