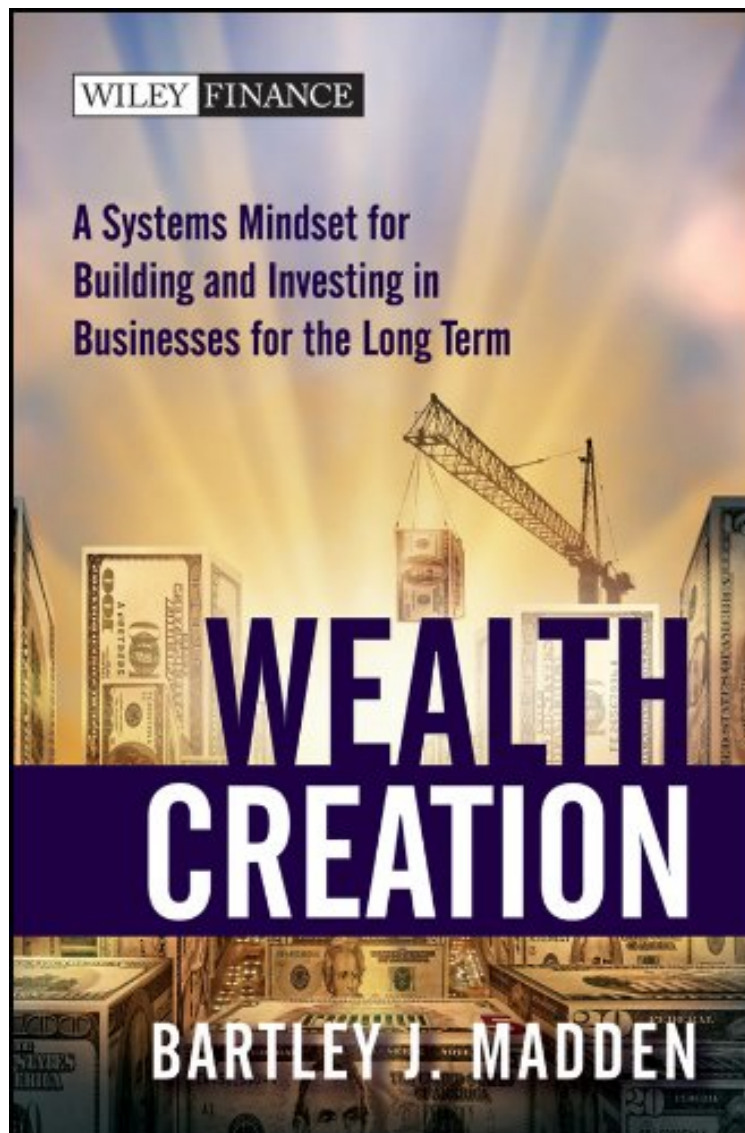


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## Wealth Creation: A Systems Mindset for Building and Investing in Businesses for the Long Term (Wiley Finance)

*Bartley J. Madden*

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**Bartley J. Madden : Wealth Creation: A Systems Mindset for Building and Investing in Businesses for the Long Term (Wiley Finance)** before purchasing it in order to gage whether or not it would be worth my time, and all praised Wealth Creation: A Systems Mindset for Building and Investing in Businesses for the Long Term (Wiley Finance):

0 of 0 people found the following review helpful. Interesting ConceptsBy JESUS GUILLERMO ESPINOSA Found

the book very interesting, specially when the PAK loop was discussed and explained. In many ways we need to act based from our perception, but importantly to LEARN. Is a fast reading book from which learned a lot of value.0 of 0 people found the following review helpful. Give this one a passBy JackalRemarkably shallow perspective on valuation using the CFROI model, which the author helped to develop. In this book the author does not really explain the model, but instead focuses on value creation more broadly. He has read some academic work outside finance (Coase, North, Deming, etc.) and presents a summary that is all over the place. The book also contains around ten illustrations of US companies and their CFROI. I do not really understand the target audience of this book.2 of 2 people found the following review helpful. Making the System WorkBy Michael J. McConnellBart 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 CONSUMERSand CAPITAL == EMBODIED KNOWLEDGEare 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. This is not a paean to capitalism as we know it, but a frank acknowledgement of the problems of a system that has been corrupted by those in positions of power and influence and a call to enact reforms that will restore the value-creating mechanisms that true free-market capitalism so effectively employs.In addition to his forceful and insightful presentation of basic principles and their implications, Madden also offers very practical suggestions for regulatory reform (p. 27) that build off of the system's strengths:\* Adjusting capital requirements for banks to require more backing for new and more complex products;\* Structuring executive compensation to encourage a more long-term view and linking it to capital requirements; and\* Crafting legislation that enables regulators to "adjust the dials" as they learn and the system evolves (in contrast to the fighting of last year's battles that is the normal response of both politicians and generals).The other important constructive contribution of Madden's book is through his suggestions for reforming corporate governance, encapsulated in his reimagination of the board as "a facilitator of wealth creation." (Ch. 7) Specifically, he proposes that Boards undertake a regular "Shareholder Value Review" [SVR] that would\* Show clearly the firm's track record of wealth creation or dissipation;\* Evaluate management's resource allocation decisions from a value perspective;\* Quantify the long-term performance expectations for the firm and its competitors implied by current market values;\* Evaluate acquisition proposals from the shareholders' perspective;\* Ensure that top management compensation is tied to long-term wealth creation;\* Benchmark the plausibility of management's forecasts of future performance by assessing their skill level against other firms that have achieved similar results.My one quibble with his proposal is that it is still heavily weighted toward financial metrics. Early in Chapter 7, he stresses the importance of non-financial information. Just as Madden has been at the forefront of the recognition that earnings don't drive value, he also recognizes that factors like commitment, integrity, and knowledge determine the ability of firms to generate the cash flow and growth that do drive value.Despite this acknowledgement of the importance of non-financial factors, they only appear in the SVR as an after-thought, through a brief note that the review should include "also a description of how the firm's organizational structure can nurture a viable, performance-oriented culture."All in all, this is a book that will engage senior corporate managers, money managers, political leaders, and students of our economic system with a wide range of ideas that link together to give a persuasive picture not only of the virtues of the free market system but also the steps that leaders in business, government, and finance need to take to realize those virtues.

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.

From the Inside Flap The competitive life-cycle framework and its relation to stock valuation is based on the premise that competition and capital flows operate over the longer term to force a firm's economic returns toward the cost of capital. In short, the pattern of a firm's economic returns and reinvestment rates reflects an unending struggle between managerial skill and competition over time. The life-cycle framework, as explained in this book, provides an insightful and intuitive way to understand levels and changes in stock prices over time. It is widely used by institutional money managers in order to make better investment decisions. Throughout the book, the common thread is a systems mindset for understanding societal attitudes and institutions that hinder or promote wealth creation and the complex activities of business firms in efficiently meeting customer needs. Such a mindset focuses attention on the underlying processes and related incentives that drive the overall system results, and especially on the importance of continual firm-wide learning to improve those processes. The life-cycle framework provides a unique lens for seeing through a firm's short-term financial results to better gauge likely long-term wealth creation or destruction. Company examples showcase the analytical usefulness of life-cycle track records and present a bottom-up view of how, in a free-market economy, customers, employees, and shareholders have mutual, long-term interests. Madden details opportunities for higher, sustainable economic growth through voluntary, private sector initiatives. As to improved management, he analyzes both the difficulty in duplicating lean principles pioneered by Toyota and the related potential for sustained competitive advantage. As to improved corporate governance, he describes a novel approach for boards of directors to ensure that management follows a wealth creation path.

From the Back Cover Praise for Wealth Creation "Bart effectively illustrates that neither unprincipled opportunism nor endless regulation can lead to business success and societal well-being. Instead, such universal benefits can only derive from a relentless focus on creating real, long-term value." — Charles G. Koch, Chairman of the Board and CEO, Koch Industries, Inc. "This book is for investors, but public policymakers take note. Its message for both is that wealth is created from within, not top down or outside in. For investors there are practical guidelines to identify firms early in their life cycle that demonstrate a high capacity for innovation and integrity, and that listen to and serve their customers. Policymakers must nurture this business environment for all to prosper." — Vernon L. Smith, Economic Science Institute, Chapman University, Nobel Laureate in Economics, 2002 "We use the life-cycle framework explained in Bart Madden's book as the linchpin for analyzing companies and diversifying clients' portfolios. Before voting for leaders in Washington, we should quiz them on how well they understand the principles laid out in Wealth Creation." — Christopher C. Faber, founder, IronBridge Capital Management, LP "An imaginative [book] that integrates a dynamic approach to business systems with the fundamentals of wealth creation." — Douglass C. North, Nobel Laureate in Economics, 1993 "This enlightening book helps the reader understand what is needed to get a free market economy to function ideally, and identifies significant shortcomings in current arrangements. Particularly illuminating is the emphasis on an absence of incentives for management to focus on long-term performance of the firm, and the failure of directors to provide effective oversight." — William J. Baumol, author of The Free-Market Innovation Machine: Analyzing the Growth Miracle of Capitalism "Madden's competitive life-cycle framework will provide insights that help forecast life-cycle patterns of economic returns that the firm will generate for its investors. I recommend this book to every long-term value investor." — Ravi Jagannathan, Chicago Mercantile Exchange/John F. Sander Professor of Finance, Kellogg School of Management, Northwestern University

About the Author Bartley J. Madden is an independent researcher whose current focus is on market-based

solutions to public policy issues, including FDA reform and corporate governance. In 1969, Madden cofounded Callard, Madden Associates, where his research was instrumental in developing the CFROI (cash-flow-return-on-investment) valuation model that has become an integral part of the investment process for many large money management firms. He later managed portfolios for Harbor Capital Advisors. In the early 1990s, Madden joined HOLT Value Associates, a firm created to commercialize the CFROI valuation model worldwide. Madden retired in 2003 as a managing director of Credit Suisse, which acquired HOLT. He is the author of *CFROI Valuation: A Total System Approach to Valuing the Firm*.