

TABLE OF CONTENTS

PREFACE.....	xi
PART I: ECONOMIC PROGRESS AND MANAGEMENT'S CORE RESPONSIBILITIES	
CHAPTER 1: Capitalism and Economic Progress.....	3
A culture of dynamism	4
CEOs carrying a torch for free-market capitalism	8
John Allison	8
T. J. Rodgers.....	11
John Mackey.....	13
Is capitalism a moral system?.....	14
CHAPTER 2: The Firms' Competitive Life Cycle	19
Foundational principles.....	20
The life-cycle valuation framework.....	21
Eastman Kodak's failure to adapt	24
Why the life-cycle framework is so important.....	27
Changing environments and firm adaptability	30
3M's managerial skill.....	31
Illumina and wealth creation	33
The capitalist's dilemma.....	36
CHAPTER 3: The Firm's Purpose and Management's Core Responsibilities	39
Making the world a better place.....	40
What is the firm's purpose?.....	43
The interrelated components of purpose	43
The core responsibilities of management.....	48
#1 To integrate an operationally useful valuation framework....	50
#2 To use resources efficiently and organize for continuous improvement.....	52

#3 To sustain a knowledge-building culture focused on innovation	53
Management should stop playing Wall Street's quarterly earnings game	56
Membership in the beat-the-fade club: Amazon	59

PART II: A KNOWLEDGE-BUILDING CULTURE IS CRITICAL TO A FIRM'S LONG-TERM SURVIVAL AND SUCCESS

CHAPTER 4: The Pivotal Role of Worldviews in Building Knowledge	
Knowledge	67
The world you see	68
Knowledge-building loop.....	71
Core belief 1: past experiences shape assumptions	74
Core belief 2: language is perception's silent partner	76
Core belief 3: improve performance by identifying and fixing a system's key constraints.....	80
Core belief 4: behavior is control of perception.....	83
Why Michelin run-flat tires failed.....	87
CHAPTER 5: The Firm's Foundational Culture and Business Performance	
Performance	91
What is culture and why is it so important?	92
More on how to change a culture.....	96
Toyota Kata	99
Knowledge base	100
Purposes.....	101
Worldview.....	101
Perceptions	102
Actions and consequences	103
Feedback.....	103
Cleveland Clinic.....	104
Culture, life-cycle reality, and strategy.....	108

Can America sustain a culture supportive of free-market capitalism?.....	111
Koch Industries.....	113
Vision.....	115
Virtue and talents.....	115
Knowledge processes.....	116
Decision rights.....	116
Incentives.....	117

PART III: THE FIRM'S PERFORMANCE AND VALUATION

CHAPTER 6: Valuation Insights, Life-Cycle Reviews, and

Integrated Reporting.....	121
Both levels and changes in stock prices are important to understand.....	122
Net cash receipts.....	124
Components of the life-cycle valuation model.....	127
What really causes big, long-term moves in stock prices?.....	130
The firm's black box, intangible assets, and organizational capital.....	133
The need for Life-Cycle Reviews.....	137
Life-Cycle Review (LCR) objectives.....	139
#1 Value-relevant track records.....	139
#2 Strategy and reinvestment.....	140
#3 Intangible assets.....	140
Benefits from Life-Cycle Reviews.....	141
#1 Gain more long-term investors in the firm's shareholder base.....	141
#2 Earn the right to purposely depress quarterly results to create long-term value.....	141
#3 Improve communications with a common valuation language.....	142
#4 Apply what is learned from life-cycle valuation principles to executive compensation.....	142

#5 Get engaged with a learning process about intangible assets.....	143
• The Integrated Reporting movement.....	144
CHAPTER 7: The Valuation of Firms Should Be a Continual Learning Process	153
Early development of the CFROI life-cycle valuation model.....	154
Ten critical ideas to connect financial performance to valuation ...	155
#1 Adjustment for inflation/deflation.....	155
#2 Project economic return	156
#3 Cross-sectional economic return	156
#4 Definition of net cash receipts	156
#5 Systems thinking.....	157
#6 Forward-looking investors' discount rate	159
#7 Evaluating the valuation model.....	160
#8 Avoid using a CAPM-Beta equity cost of capital	163
#9 Intangibles and the art of life-cycle fade forecasting	165
#10 A systems-based valuation research methodology.....	167
Model corporation	170
Future Research.....	176
CHAPTER 8: The Quest for High Performance and Concluding Thoughts.....	179
The halo effect	181
Experimentation, feedback, and adaptation	183
JCPenney's life-cycle transition.....	184
Intuit's learning culture.....	187
Strategy and execution.....	190
A path forward.....	193
NOTES	197
REFERENCES.....	211