The AMBACHTSHEER Letter
Sustainable Pension Design • Effective Pension Management

November 2026

BARTLEY MADDEN'S 'PRAGMATIC THEORY OF THE FIRM':

AN EXPLANATION OF HOW BUSINESS ORGANIZATIONS CREATE VALUE

"A three-part video course has been developed that summarizes key ideas from my research journey that began in 1970. It 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 shareholder returns? My work in answering these questions evolved into The Pragmatic Theory of the Firm."

Bartley J. Madden

'Learning What Works'

Our *Letter*s have been referencing Bartley Madden's work for some time now for two reasons. First, his thinking has helped me better articulate how pension organizations can create value for their stakeholders, and second, more specifically, it has helped me rethink how pension organizations should invest retirement savings. The goal of this *Letter* is to help readers understand why he has been so influential to my thinking. I start by sharing a collection of his efforts titled **'Learning What Works'**. You will see it provides access to a three-part video course explaining his 'Pragmatic Theory of the Firm', and also provides access to a 40-page transcript of the subjects covered in the video course. This *Letter* condenses those 40 pages to 4.

What Is a 'Theory', and What Makes It 'Pragmatic'?

The dictionary definition of a 'theory' is "*an abstract set of beliefs or organizing principles that explain and guide analysis of a phenomenon, facts, or events*". In contrast, the definition of 'pragmatic' is "*dealing with things sensibly and realistically in a way that is based on practical rather abstract considerations*". Thus a 'pragmatic theory' must be a set of beliefs or organizing principles that explain a phenomenon sensibly and realistically based on practical rather than abstract considerations. Madden's 'Pragmatic Theory of the Firm' applies this 'pragmatic theory' definition to explaining the phenomenon of value creation in business organizations.

Madden notes in the quote at the top of this page that the research journey that led him to the 'Pragmatic Theory of the Firm' started in 1970. That was also the year I began my own research journey. It first focused on the pragmatic application of Markowitz/Sharpe new portfolio theory to real-world investing. Later, it would shift focus to the pragmatic application of Peter Drucker's beliefs set out in his 1976 'Pension Revolution' book. In it he argued that workers would become owners of the means of production not through a violent Marxian revolution, but quietly and legally through their pension fund investments. This could be a good thing, but only if the ownership acquisition process by pension funds was guided by two considerations: 1. 'Legitimacy', and 2. 'Competence'. These ideas would ultimately evolve into the Canadian Pension Model, widely lauded for its pragmatic value-creation potential in the pensions world.

Value-Creating Investing

Value-creating investing is a key success component of the Canadian Pension Model. It provides the foundation for the robust investment returns required to generate future pension payments at an affordable cost (i.e., contribution rate). It also logically leads to this question: what are the drivers that create these robust investment returns? The answer is nicely embedded in Madden's 'Pragmatic Theory of the Firm'. He starts by setting out four criteria for judging the theory's viability for practical decision-making:

1. Facilitates systems thinking so essential for analyzing complex problems.
2. Clarifies the purpose of the firm.
3. Identifies the critical determinants of the firm's long-term performance.
4. Connects the firm's long-term performance to market valuations and shareholder returns.

Digging further into the purpose of the firm, Madden posits four mutually reinforcing objectives:

1. Communicate a vision that inspires and motivates employees to behave ethically.
2. Survive and prosper through continuous gains in efficiency and sustained innovation.
3. Work continuously to build trust and win-win relationships with all the firm's stakeholders.
4. Take care of future generations with a commitment to ensure environmental sustainability.

The significant difference Madden brings to the corporate purpose debate is his assertion that maximizing corporate value is best positioned not as the purpose of the organization, but as the result of successfully achieving its four mutually reinforcing objectives. So in the context of business organizations, "*the path for management to purge short-termism and dancing to Wall Street's tune for meeting or exceeding their quarterly earnings expectations is to adopt the Pragmatic Theory of the Firm and its life-cycle language*".

Madden's Pragmatic Theory Case Studies

Given his emphasis on pragmatism, it is not surprising that Madden uses 'real world' case studies to make his Pragmatic Theory case. He offers 11 successes and 1 failure:

BB&T Bank: Best performing US Bank during the 2008 financial crisis. Unlike many of its competitors, it did not try to boost its earning by selling toxic products (e.g., negative amortization loans) to its customers. Quoting CEO John Allison: "*If you want to have passion and energy in your life, you must have a sense of purpose in your work. I ask my employees if they are truly helping the bank's customers achieve economic success and financial security. You should never do anything that you believe will not be in your client's best interests, even if you can make a profit in the short term…..Life is about creating win-win relationships*".

Curtiss-Wright: Orville and Wilber Wright traversed their well-documented knowledge-building journey from theory to pilot-controlled flight in four years. The Wright Flyer first flew on December 17, 1903. Disciplined systems thinking was key to their success. Commercially, their efforts eventually evolved into the *Curtiss-Wright* Corporation, which is still a technology leader in the aerospace industry to this day.

Intuit: Is a consumer financial software firm known for its Quick Books product for small business. Soon after its founding in 1992, it won a competitive battle against *Microsoft*'s Money product. Intuit's key was its knowledge-building culture instilled by CEO Scott Cook, who sent out his programmers into customers' homes to find out what they really wanted. Their #1 need was simplicity…and that is what Quick Books delivered. In words…"*Intuit's mission is to improve our customers' financial lives so profoundly that they can't imagine going back to the old way*".

Amazon: Its 1995-2025 life-cycle track record has featured asset returns well above the cost of capital. Founder Jeff Bezos attributes this 30-year track record to three drivers: 1. Make investments based on long-term market leadership considerations, 2. Promote systems thinking that stresses connectedness, 3. Involve the entire organization in innovation and its implementation. A pragmatic example of making this work is *Amazon*'s 'Working Backwards' process for major new products and businesses. Start with the desired customer experience and then work backwards to develop a detailed understanding of the opportunity and the constraints.

Nvidia: Its knowledge-building proficiency enabled ultra-fast design/product cycles for its computer chips and its software facilitated large scale acceleration in computing power. All this was made possible by CEO Jensen Huang's promotion of a culture rooted in speed, autonomy, and absence of internal politics. When AI emerged at scale in the early 2020s, developers were hooked on *Nvidia*'s products for building AI applications, resulting in returns well in excess of the S&P500.

Walmart: Its 1970-2025 track record shows asset returns well above the cost of capital. Over that period, it replaced *Kmart* as the dominant retailer in the USA. The key was Sam Walton's answer to the question: what is a store? He viewed a store as the node in a network. Stores are interconnected components of a holistic system: the firm. This led *Walmart* to adopt a culture of knowledge-building proficiency and innovations at the firm level which saved customers money. At the same time, its stock price outperformed the S&P500 13-fold 1980-1990.

Deere: From 1960 to the early 2000s, *Deere* was a mature firm earning its cost of capital. Then it materially increased its financial performance over the course of the last 20 years. Today it is a leading innovator in agriculture, forestry, and road building equipment. What happened? Its Board attracted new managerial leadership in the early 2000s, which focused on changing the dominant adversarial management/unionized labour relationship existing at that time. The new leaders committed to "*management and labour coming together to utilize the knowledge and skills of all employees by involving them continually in problem solving and decision making*". It resulted in *Deere* becoming the globe's leader in precision agriculture to the benefit of all its stakeholders.

Microsoft: After suffering through a period of competitive fade, the firm appointed Sayata Nadella its new CEO in 2015. He changed the firm's bureaucratic command and control culture to one based on trust, shared purpose, and knowledge-building. In his words…"*I encouraged Microsoft to become mobile-first and cloud-first, not PC-first…..to lead with a sense of purpose and pride in what we do….not envy and combativeness. Anything is possible for a company when its culture is about listening, learning, and harnessing individual passions and talents to the company's mission*". This has included the reappearance of positive asset returns.

Nucor: Ken Iverson became CEO in 1965. Over the subsequent 30 years, he nurtured and sustained an unusually flat organizational structure with only four layers of management, and a high degree of freedom for employees. At the same time, unlike the rest of the steel industry, *Nucor* generated high productivity gains, high employee income, and high returns on capital. In his autobiography, Iverson described the firm's value-creating processes, very much in line with the Pragmatic Theory of the Firm.

Haier Group: Its headquarters in China has a glass-enclosed sledge-hammer mounted on the wall. It is a symbol of CEO Zhang Ruimin's value creation journey starting in 1984. Under his leadership, the firm went from a money-losing refrigerator manufacturer with 800 low-morale employees to a global leader in white goods with 130,000 high-morale employees. As the hub of a large multi-company knowledge-building network, it strives for zero distance from its customers to receive feedback on problems and on new product ideas.

Bayer AG: When Werner Bauman became CEO in 2016, he immediately added crop science, a third business, to the two existing businesses of pharmaceuticals and consumer health. This increased the firm's debt materially, generated tens of thousands of health-related lawsuits, and materially increased corporate command-and-control bureaucracy. Shareholder pressure led to Bauman's resignation, and the hiring of new CEO Bill Anderson. He recognized the need for a highly-proficient knowledge-building culture that would upgrade the speed and effectiveness of decision-making….."*Top down management doesn't place products and customers at the heart of daily work. In the future , 95% of decision-making will shift to people actually doing the work. The new system will reduce hierarchy levels, eliminate bureaucracy, and accelerate decision-making*". Hopefully, this marks the beginning of *Bayer AG*'s journey back to high levels of innovation, productivity, and profitability.

Eastman Kodak: Its introduction of the Instamatic cartridge in the early 1960s led to high asset growth rates and investment returns well above the cost of capital during the 1960s and early 1970s. However, its board and management failed to adapt to a changing world in which digital photography replaced most of the uses for cameras and film that was *Kodak*'s core business. This was despite the fact that one of their young engineers had invented digital photography. The resulting failure by *Kodak*'s Board and senior management to embrace this new technology led to an accelerating fade in the firm's return on assets and its eventual bankruptcy in 2012.

In addition to Madden's 12 'pragmatic theory' case studies above, there is a 13th I would like to share from my own experience. It unfolded 35 years ago as an initiative to measure 'value for money' in the global retirement income generation industry. We originally named the firm *Cost Effectiveness Measurement*….. which with the passage of time became *CEM Benchmarking*….and eventually just *CEM*. Tracking the evolution of *CEM* over time, it has become a legitimate case study, nicely matching key elements of Madden's Pragmatic Theory of the Firm.

CEM: Today it is the leading 'data, systems, and insights' firm in the global retirement income generation industry. It serves 150 of its 300 largest organizations globally, with collective assets of US$16 trillion, and membership of 100 million people. Its vision is to "*meaningfully improve the lives of those people through the provision of 'actionable insights'*". These insights come from a combination of rigorous data quality and security protocols, continuous product and talent development, and maintaining strong personal relationships inside client organizations through fostering 'communities'. These 'communities' are organized around key areas such as investments, data/systems, and talent development. *CEM*'s 55 team members themselves have diverse academic/professional/cultural backgrounds, with a 'sense of curiosity' a highly valued personal attribute. Firm revenues and profitability have grown steadily over time, and are projected to continue to do so in the years ahead as it continues to expand the markets it serves, and in the provision of innovative products and services in those markets.

Questions for Pension Funds

These 13 corporate stories confirm that value-creation doesn't happen just because we want it to. Instead, it is an outcome explained by the logic of the Pragmatic Theory of the Firm. Does your organization use the Theory to frame its own purpose and the plan to achieve it? Is the investment approach your organization uses consistent with the Theory? If not, should it be? On a more macro level, as we argued in our **March 2026 *Letter***, should the Theory not be the guiding beacon of the *FCLT-Global* organization with its stated mission "*to mobilize companies and investors to focus capital on the long term to create lasting value*?"

Keith Ambachtsheer

The information herein has been obtained from sources which we believe to be reliable, but do not guarantee its accuracy or completeness.

All rights reserved. Please do not reproduce or redistribute without prior permission.

Published by KPA Advisory Services Ltd., 1 Bedford Road, Suite 2802, Toronto ON Canada M5R 2B5
416.925.7525 www.kpa-advisory.com