

Leadership

A Journey Toward World Peace

Volume 4

**Our Leadership Transforms Decision-
Making, Promoting Organizational
Success, and Social Well-Being**

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Cover Credit: “Horizons,” a masterpiece of Francisco Antonio Cano,
a Colombian painter

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ISBN-13: 979-8-88870-002-0

Library of Congress Control Number: 2022949323

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in a retrieval system, or transmitted in any form, or by any means,
electronic, mechanical, photocopying, or otherwise, without the prior
written permission of the author.

This beautiful painting on the cover of this series is called “Horizons,” a masterpiece of Francisco Antonio Cano, a Colombian painter. It summarizes the journey proposed by this book as the family are migrants journeying toward a better future. Their journey is the result of their spirituality, greatness and leadership.

The painting reflects wisdom: with a contemplative attitude, in silence, building consciousness. It reflects transcendence: they appreciate beauty, goodness, and truth, a life journey, walking toward love; they are builders of transcendence, creators of beauty, goodness, and truth: his finger pointing at the sky resembles God’s creation of Adam in Michelangelo’s Sistine Chapel. It reflects that they have transcendence, higher-level values: his right-hand holds an ax, a symbol of a worker. It reflects religiosity: they resemble the Holy Family in their journey to Egypt; they reflect the loving presence of God; they are building a relationship with God in their striving for a better life, a better world. It reflects relationships: their family is a community of love. It reflects having a meaning in life: they accept sacrifices, suffering, and efforts toward an ideal. It reflects discernment: they meditate and ponder, integrating all the dimensions of life before deciding on the next step. It reflects transformation: they are journeying to create a new life, new communities, a new vocation, a new home. It reflects social action: a couple caring for their family and community.

The painting reflects their leadership: they have a vision of the future of society, promoting transcendence, beauty, goodness, and truth; they have a mission, values, purpose, identity, commitment, and role in society; they reflect relationships, a small community, marching to join a larger community that shares their vision and mission; they are making meaningful decisions, based on discernment; they are transforming, executing social actions.

This painting is located at the Museo de Antioquía in Medellín, Colombia.

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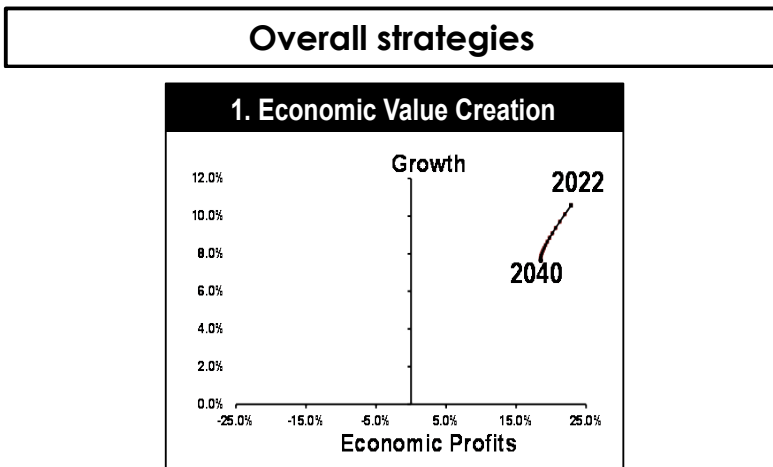
INTRODUCTION

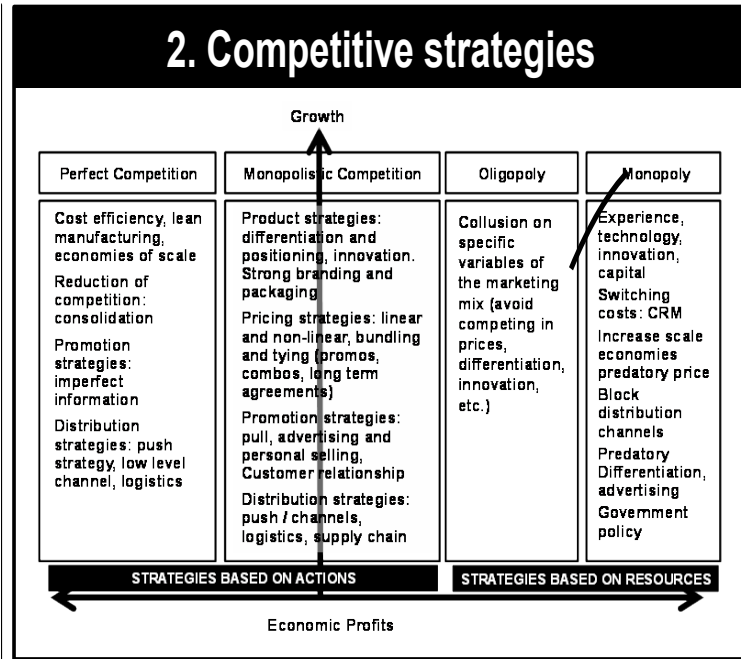
The purpose of this fourth volume is to show how our leadership transforms decision-making, strategic management, business ethics, and corporate social responsibility.

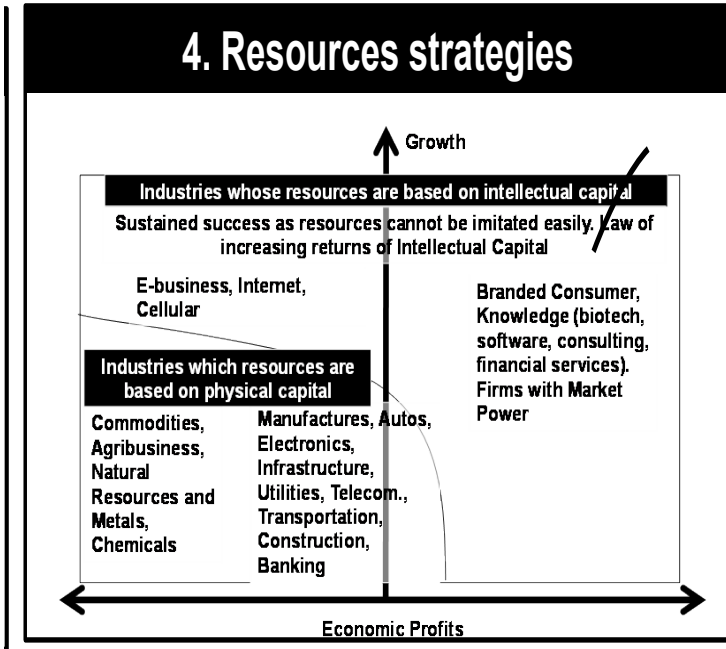
This volume shows how a leadership culture has a positive impact on organizations, on the business world, producing the best social outcomes by providing resources, Edvinsson's Intellectual Capital, human, social and structural capital, that promote organizational success and social well-being.

This volume introduces an entirely new strategic management framework based on economic models, which put economic value creation and resources at the center of decision-making. This new approach based on resources helps us to connect strategic management with leadership.

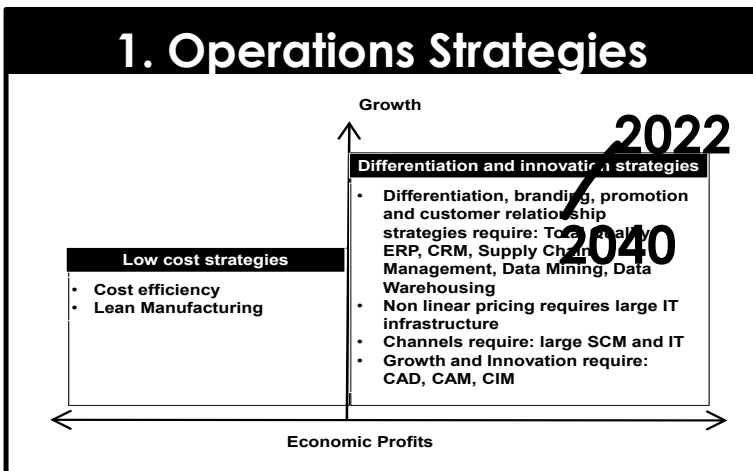
This new strategic management framework is extraordinary, as it allows to navigate all strategic management and functional strategies on one page, visualizing the recommended strategies for the following years, knowing if such strategies help to create economic value, as Figure 1 shows.

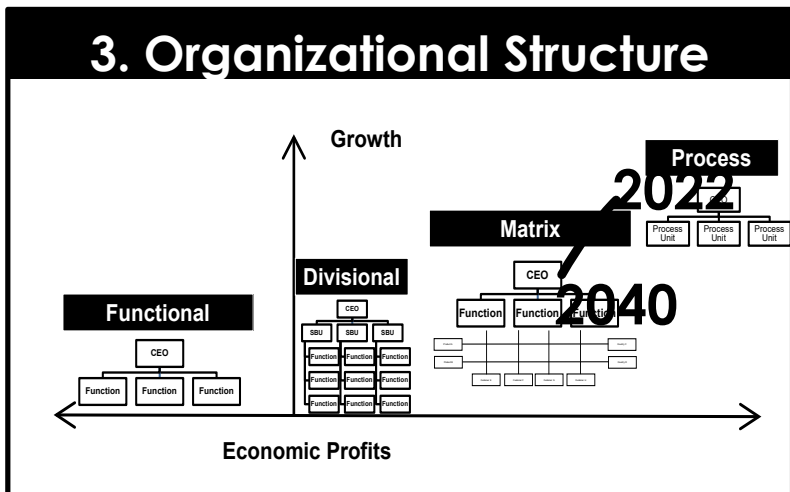
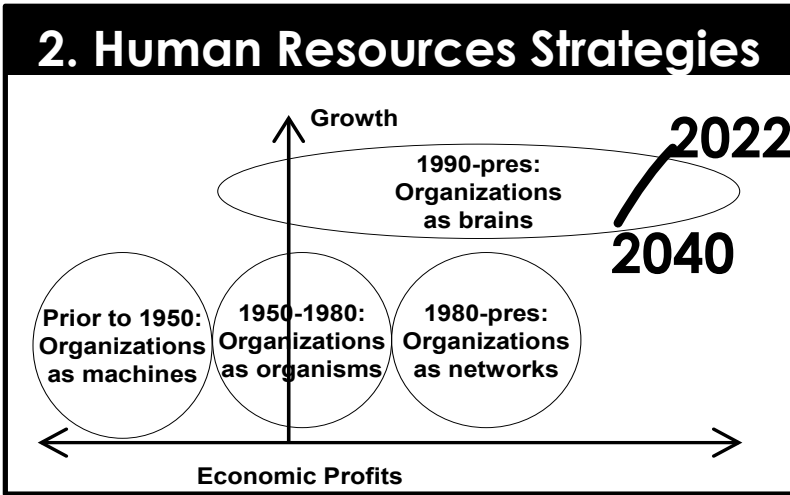






Functional strategies





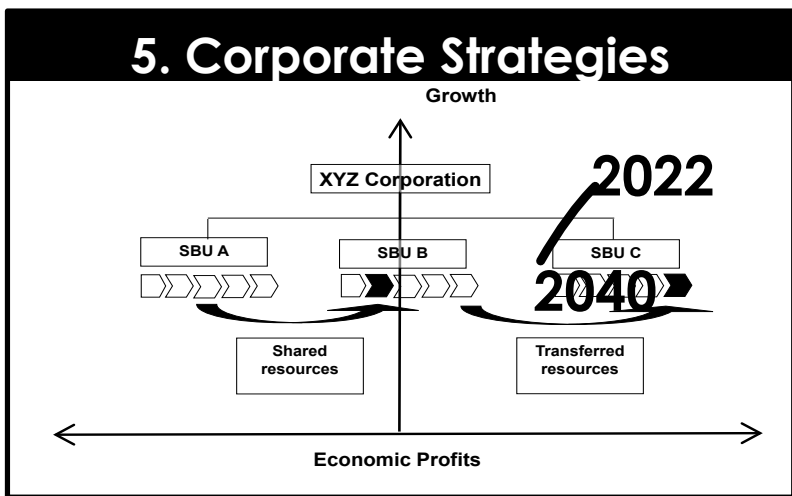
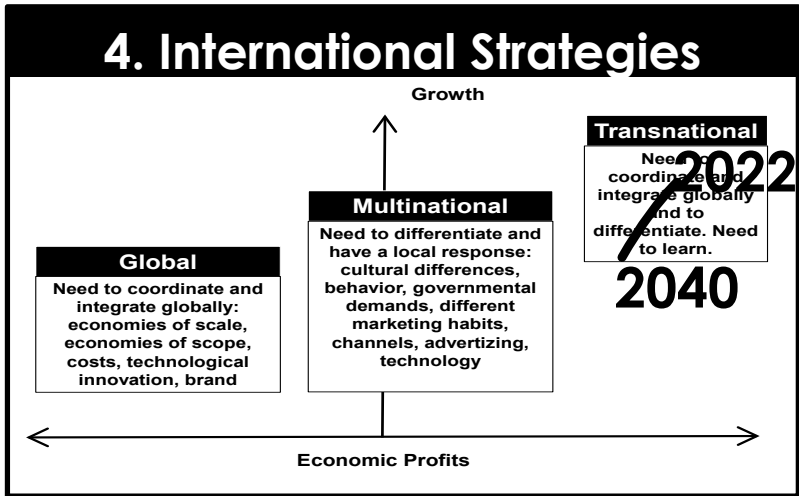




Figure 1 Economic value creation in strategic management

Relying on the EVA Model (Economic Value Added), this book re-frames strategic management, solving several limitations of 20th-century strategic management:

- Clarity of ideas. Connecting the environment and strategies with the results in terms of its economic value creation is conceptually crucial. Practitioners have a powerful analytical tool to make strategic decisions, knowing what results are expected.
- Simplicity. It simplifies and integrates strategic management, solving the lack of unity of traditional strategic management, the atomization of theories and models, and the disconnection with functional strategies. It consolidates all strategies into three: competitive strategies responsible for profitability, innovation strategies responsible for sales growth, and resource strategies responsible for capital, providing unity. It helps resolve the literature's current atomization and explains the differences between theories as part of a contingent approach. All

strategic management models can be framed on the EVA metric, providing an integrated and coherent view of the entire management of an organization.

- Knowledge integration. It solves the lack of interdisciplinary thinking in traditional strategic management and functional strategies. Incorporating the central role of resources, specifically Intellectual Capital and its components, human capital, social capital, and structural capital, promotes interdisciplinary thinking, as these resources impact multiple disciplines.
- Rationality. It provides metrics and cause-effect connections, linking the strategic environment, strategies, and results. It shows that different strategic management models, theories, and strategies produce different results in terms of economic value creation.
- Critical thinking. It solves the lack of critical thinking in traditional strategic management and functional strategies, as EVA metrics lead to questioning the appropriateness of the strategies.
- Systems analysis is a source of critical thinking by relying on the connection between environment, strategies, results, and the EVA Model that introduces the opportunity cost.
- Economic Profits are a source of critical thinking because they force us to compare the organization's results with similar organizations. Economic Profits involve the "opportunity cost", which compares the benefits of using resources in an organization, in a strategy, versus other alternatives.
- Systems thinking is a source of critical thinking, as it leads to questioning the coherence between environments, general strategies (competitive, innovation, resource strategies), func-

tional strategies (marketing, operations, human resources, organizations, strategic planning strategies), and results (economic value creation).

- Incorporating metrics into systems thinking is a source of critical thinking, using metrics on environments, strategies, and results, questioning the benefits of environments and strategies. This leads to overcoming the qualitative and conceptual approach of traditional strategic management.
- Showing that theories, models, and strategies are contingent to the environment, strategies and results is a powerful source of critical thinking.
- Interdisciplinary thinking generates critical thinking, as it allows other disciplines such as finance, ethics, or social responsibility to question the validity of strategies.
- Practicality. The criticism that strategic management seems like a soft discipline is now replaced by a practical view of strategic management with concrete metrics.
- The social dimension of strategic management. It introduces the social impact of strategic management by providing the connection between strategies and results and connecting strategic management with social disciplines such as ethics and corporate social responsibility.
- Relevance to non-business organizations. The new strategic management is valid for also for non-business organizations and individuals, communities, governments, NGOs, armed forces, clubs, churches, and other agents.

Creating economic value may generate strategic, social and ethical dilemmas. A leadership culture promotes discernment to solve such dilemmas.

World peace results from a leadership culture impacting decision-making, by providing resources, promoting social well-being, nutrition, shelter, sanitation, healthcare and education.

World peace results from a leadership culture providing discernment to solve social and ethical dilemmas that economic value creation and critical thinking in strategic management may generate.

I. ECONOMIC VALUE CREATION IN MODERN STRATEGIC MANAGEMENT

Introduction

The purpose of this chapter is to demonstrate the connection between economic value creation and strategic management. In the last two decades, several economists, among them 5 Nobel Prize winners, proposed a new version of strategic management, incorporating economic modeling, metrics, systems analysis, and resources' central role as the strategies' backbone. This new approach is revolutionary, as it helps us connect strategic management with leadership.

Economics highlights the centrality of resources responsible for organizational success. The centrality of resources leads to the need to create economic value. In our daily decisions, we intuitively rely on the need to create economic value: whenever we invest in a resource, we choose the investment that provides the best results.

Modern corporate finance proposes a model that provides very profound analytical intuitions to understand the phenomenon of economic value creation: the EVA™ Model (Economic Value Added).

This chapter uses the metrics of the EVA Model to analyze whether our strategic decisions lead to creating economic value. The introduction of the EVA Model in strategic management is a powerful analytical tool that helps to integrate its different theories and models, simplifying the discipline, promoting critical thinking, interdisciplinary thinking, and improving decision-making.

Modern economics transforms strategic management, introducing the centrality of resources

In recent decades, several economists have become involved in strategic management, generating a profound transformation in the

discipline, bringing metrics and economic models to the traditional conceptual and qualitative approach.

This modern strategic management is based on "Industrial Organization", also called "Industrial Economics", a branch of economics that introduces economic modeling, metrics, and some advanced economic theories, such as Game Theory and the Resource-Based View of the Firm, to analyze strategic management decisions.

Michael Porter's "Competitive Strategies" and "Competitive Advantage" pioneered this approach, followed by Jean Tirole's "The Theory of Industrial Organization", Oz Shy's "Industrial Organization", Stephen Martin's "Advanced Industrial Economics", Avinash K. Dixit and Barry J. Nalebuff's "Thinking Strategically", David Besanko and David Dranove's "Economics of Strategy".

Several famous Nobel Prize-winning economists contributed to this economic view of strategic management, such as Ronald Coase (1991), John Forbes Nash (1994), Oliver E. Williamson (2009), Jean Tirole (2014), and Oliver Hart (2016).

Systems analysis in strategic management generates rationality and critical thinking

Incorporating economic models into strategic management produces crucial benefits.

The first benefit of economic modeling is introducing "systems analysis" in strategic management.

The reality is presented as a system with three components: the environment (actors, factors), the strategies (actions, resources), the results (financial results, customer satisfaction, personnel, internal processes, innovation, and growth) in which the variables are interrelated in a cause-effect way.

There must be consistency between environment, strategies, and results. For example, microeconomics and managerial economics describe four types of competitive environments: perfect competition, monopolistic competition, oligopoly, and monopoly. Four completely

different types of competitive strategies derive from them: low cost, differentiation, collusion, and monopoly defense; these four environments and strategies lead to different economic results: perfect competition generates Economic Profits of less than -2%, monopolistic competition generates Economic Profits between -2% and +6%, oligopoly generates even higher profitability and monopoly generates the highest profitability.

For example, a firm that produces oil, a commodity, operates in an environment of perfect competition. Consequently, it should have low-cost strategies, and its economic performance should reflect low profitability. However, evidence shows that its profitability is often very high, which shows that the competitive strategy is oligopolistic, collusion, and competitors operate as a cartel.

This is a pillar of critical thinking in strategic management: we now know that some strategies only make sense in specific environments, and not in others; some strategic environments and specific strategies can produce specific economic results.

Introducing metrics in strategic management generates critical thinking

Economic thinking in strategic management introduces "metrics" and mathematical modeling, generating critical thinking.

For example, Stephen Martin¹ presents the following model to describe innovation, linking environment, strategies, and results, promoting critical thinking; according to the model, innovation only works if the innovating company has market power:

$$E = (n - 1) V [r + (n - 2) b] / (r + nb)^3 + \{2V [(r + (n - 1) b) / (r + nb)]^3 + dF_2 / db_2\} > 0$$

¹ Extracted from: Martin, Stephen. *Advanced industrial economics*. Blackwell. 1993.

The centrality of resources as a key to successful management introduces interdisciplinary thinking

Incorporating resources into strategic management influenced by economists is crucial for critical and interdisciplinary thinking. This book exemplifies the interdisciplinary thinking that the intuition of resources promotes.

Edith Penrose's pioneering book "The theory of the growth of the firm" shows that a firm is a collection of productive resources. The firm's size is the result of the productive resources it employs. Amit, Schoemaker, Barney, Zajac, Chatterjee, Wernerfelt, Markides, Williamson, Prahalad, and Hamel prove that managers must acquire resources or develop capabilities aligned with the firm's objectives.

During the last decades, several authors developed a resource-based theory of the firm. This approach asserts that unique resources make firms outperform others in both growth and competition.

Ricardo, Wernerfelt, Barney, Conner, Montgomery, Peteraf, Mahoney, Pandian, Winter, Reed, and DeFilippi, contribute to the Resource-Based View of the Firm theories, which assert that resources and capabilities generate competitive advantages based on their difficulty in being imitated and, therefore, define a firm's success.

Nelson proposes Evolutionary Economics; Teece, Pisano, and Shuen propose the Dynamic Capabilities model, which argues that the ability to innovate and grow is linked to internal capabilities to take advantage of market opportunities consistently.

Grant presents the theory of the Knowledge-Based View of the Firm, which views knowledge as the firm's most critical resource, fostering innovation (a competitive advantage and growth strategy) and efficiency (a competitive advantage).

Grant, Nonaka, Spender, Cohen, Levinthal, Teece, Pisano, Shuen, Kogut, and Zander defend that organizational knowledge is the primary source of differentiation and competitive advantage.

Relationships are also a critical resource. Torger Reve shows how relationships produce economies of scale, scope, and competition, the pillars of strategic alliances.

As an example, the Stackelberg - Spence - Dixit model² shows how to be profitable, a company needs to develop more unique resources than the competition, again linking environment, strategies and results, promoting critical thinking:

$$d\pi^2/dK_1 = \partial\pi^2/\partial K_1 + \partial\pi^2/\partial x_1 * dx_1^*/dK_1 + \partial\pi^2/\partial \pi^2 * dx_2^*/dK_1$$

McKinsey also presents the need for unique resources as a requirement for sustained growth. Mehrdad Baghai, Stephen C. Coley, and David White³ explain how a company's growth is based on resources: business-specific competencies, growth-enabling skills, privileged assets, and special relationships.

The need to invest in resources leads to economic value creation

The need to invest in resources introduces the need to justify the economic effort of investing in them: an investment in resources must create economic value. To be justified, the investment must yield better results than alternative investments: its “opportunity cost”.

Economic value creation is a natural phenomenon that affects all economic agents (individuals, companies, governments, and non-profit organizations).

In its most simple intuition, economic value creation means we must make the best possible use of our resources in activities that best satisfy the community.

² Extracted from: Tirole, Jean. *The Theory of Industrial Organization*. The MIT Press. 1988.

³ Baghai, Mehrdad; Coley, Stephen C.; White, David. Stairways to Growth. *The McKinsey Quarterly*. Number 4. 1996.

We all have the intuition that we must make good use of our resources: our assets, our talent, our time, and our capital.

We all believe that using resources well invites those who provide those resources (investors, banks, employees, suppliers) to support the most efficient and successful ones.

The Bible rewards the person who uses his talents in the best way and punishes the one who does not. If a farmer has two trees, he will invest in the better one by fertilizing his soil. If a woman needs a dentist, she will go to one who will provide the best services requiring the least amount of her money, time, and resources. Citizens will vote for the most efficient government, and parishioners will go to the best church that provides the best services for the least cost.

In economic terms, this is expressed in the concept of "opportunity cost": we all use resources, and are aware that using our resources in one activity precludes us from using them in another activity.

Even in the natural kingdom, the creation of economic value is a natural phenomenon that has been part of natural selection in the animal and plant kingdoms, a process described as Darwinism: the fittest survive, the one that makes the best use of its resources.

The EVA Model: the key metrics of economic value creation

Bennet Stewart⁴ and Tom Copeland⁵ (McKinsey & Company Inc.) proposed the EVATM Model to measure economic value creation.

⁴ Stewart, G. Bennett. *The Quest for Value: A Guide for Senior Managers*. HarperCollins Publishers. 1999.

⁵ Financial science has developed mathematical models to measure economic value creation; Discounted Cash Flow, is the most popular: it measures how much money the company will earn in the future, so the value of the company today is the net present value of future cash flows. Before making any investment, investors analyze the risks and outcomes of potential stocks, and for each level of risk, the investor will invest in the most profitable stock. This intuition is reflected in the EVA model.

The EVA Model shows us something revolutionary that confirms our intuitions: doing things well is not enough, to create economic value, it is necessary to do better than others, we must have better resources and use them better than others.

The market value of an organization is equal to the capital invested at the beginning, its physical capital, plus the present value of its future Economic Profits (EP), its Market Value Added (MVA):

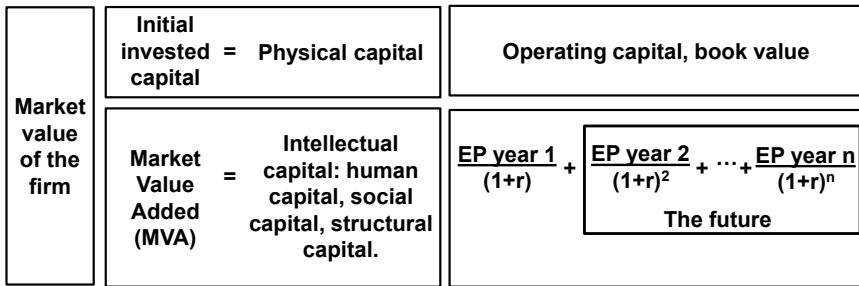


Figure 2 The market value of an organization assessed by the EVA Model

The EVA Model provides several terms that help understand the economic value creation process.

Each year's economic value creation = Investment x (Return on Investment - Cost of Capital).

Each year an organization creates economic value if the return on investment, minus the cost of capital, is a positive term. The accumulation of future economic values created each year contributes to the value of an organization today.

Economic Profits = Net operating profit after tax - (invested capital x weighted average cost of capital)] leads to exactly the same value as the DCF [$PV = CF1 / (1+r) + CF2 / (1+r)^2 + \dots + [T / (k - r)] / (1+r)^{n-1}$ which means: PV = present value; CFi = cash flow in year I; n = number of periods; r = discount rate; T = final year cash flow; g = expected growth rate]

Extracted from: Copeland, Tom, et al. *Valuation: Measuring and Managing the Value of Companies*. 3rd Edition. McKinsey & Company Inc. John Wiley & Sons, Inc. 2000.

An enlightening part of this equation is the cost of capital, which reflects the return on alternative investments.

The cost of capital reflects the opportunity cost. Suppose we invest money in organization ABC which has a return of 10%, instead of investing in organization XYZ, which has a return of 15%. In that case, our opportunity cost, our cost of capital is 15%, so by investing in ABC, we would destroy 5% value.

This confirms the intuition we all have: to create economic value, it is not enough to do things well, we must do better than others.

The metrics connecting economic value creation and resources: MVA = Intellectual Capital

In "The Quest for Value: A Guide for Senior Managers", Bennett Stewart presents databases with the main variables related to the EVA Model of thousands of U.S. companies.

The analysis of these databases shows that industries with a more significant component of Intellectual Capital have better economic value creation.

Leif Edvinsson explains how Intellectual Capital is based on three types of capital, three types of resources, pillars of the intangible assets of an organization:

- Human capital: knowledge, experience, competencies, skills, attitudes, intellectual agility, vision, ideas.
- Social capital: relationships, networks, alliances, attitudes, culture, values, reputation.
- Structural capital: systems, databases, knowledge bases, processes, patents, trademarks, copyrights.

Market value of the firm	Physical capital	Initial invested capital	Operating capital, book value
	Intellectual capital: <ul style="list-style-type: none"> • Human capital: knowledge, experience, vision, mission, values, ideas, skills. • Social capital: relationships, networks, alliances, reputation. • Structural capital: systems, databases, knowledge bases, culture, processes, patents, trademarks, copyrights, trade secrets. 	MVA (Market Value Added)	$\frac{EP \text{ year } 1}{(1+r)} + \frac{EP \text{ year } 2}{(1+r)^2} + \dots + \frac{EP \text{ year } n}{(1+r)^n}$ <p style="text-align: center;">=</p> $\frac{(\text{Economic Profit}_{T+1} / \text{WACC}) + \text{NOPLAT}_{T+1} * (g/\text{ROIC}) * (\text{ROIC} - \text{WACC})}{[\text{WACC} * (\text{WACC} - g)]}$

Figure 3 The Market Value Added (MVA) measures the Intellectual Capital

Kaplan and Norton provide a similar intuition; in their Balanced Scorecard, they identify intangibles as human resources (employee skills, talent, and knowledge); information (databases, information systems, networks, and technology infrastructure); and organization (culture, leadership, employee alignment, teamwork, and knowledge management).

The Intellectual Capital contrasts with the physical capital that represents the tangible part of the company (its book value).

Shareholders are willing to pay a premium above the book value of an organization, an MVA, based on the belief that the organization can perform well in the future. That MVA reflects the Intellectual Capital.

The MVA measures the Intellectual Capital, made up of human, social and structural capital, introduces us to a central theme of this volume: the centrality of resources to organizational success, a key theme of leadership.

Illustrative example. The creation of economic value

Many readers may not be familiar with strategic management and economic value creation and may not have a mathematical or financial

background. The following illustrative example helps to understand these intuitions.

For purely academic purposes, I simulated the value creation of Starbucks⁶ in a financial model developed by Juan Carlos Torviso (MBA, Stanford University), which relies on the EVA Model to analyze the economic value creation of an organization. This financial simulation is part of my previous book⁷: “Strategic Value Management. Economic value Creation and the Management of the Firm”. These financial projections are based on my opinion and are not meant to describe Starbucks’ reality.

The first year of the simulation reflects Starbucks' historical financial statements. I simulated the following years based on my personal opinion, trying to make the current market value provided by the simulation similar to the actual market value of the company so that the simulation may reflect how an investor sees the company's future.

⁶ This link presents a video explaining how this financial simulation works: <https://www.juanpablostegmann.net/documents?lightbox=dataItem-k9kboses4>

This link provide the simulation with the Starbucks data that I incorporated: <https://www.juanpablostegmann.net/documents?lightbox=dataItem-k9kbew3m1>

This link presents a video to understand the EVA model: <https://www.juanpablostegmann.net/documents?lightbox=dataItem-k9kbxsul2>

⁷ Stegmann, Juan. P. *Strategic Value Management. Economic value Creation and the Management of the Firm*. John Wiley and Sons Inc. 2009. Hoboken, New Jersey.

Juan Carlos Torviso developed the simulation presented in the book.

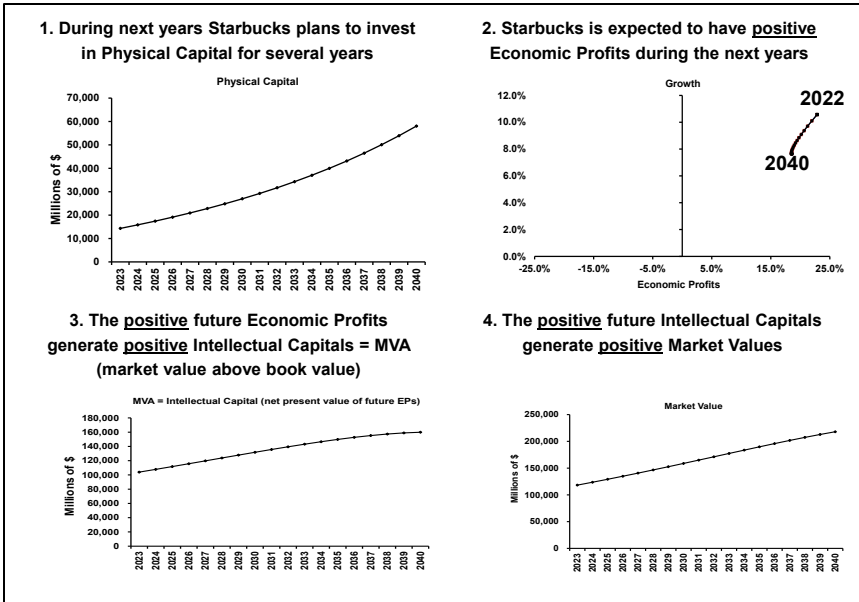


Figure 4 Starbucks economic value creation. Optimistic scenario

Figure 4.1 shows that Starbucks must invest \$15 billion in physical capital during the first year and higher values during the following years. However, we do not know if this decision is good or bad, as we do not know if Starbucks can create economic value.

Figure 4.2 shows Starbucks' ability to create economic value: the Economic Profits are around 20% over the next few years, which is extraordinary; the other component is growth: about 10% over the next few years, which is also excellent. According to this simulation, the investors consider that Starbucks has a solid ability to create economic value.

Figure 4.3 reflects Starbucks Market Value Added, MVA, also called Intellectual Capital, because of its contrast with physical capital, its book value. MVA is calculated as the organization's market value over its book value, or as the EVA Model puts it, the net present value of future Economic Profits. That excellent Intellectual Capital reflects

the positive view of the investors on Starbucks' future outlook. Intellectual Capital (knowledge, relationships, and processes) is the backbone of their competitive and innovation strategies.

Figure 4.4 shows that Starbucks' market value = physical capital + MVA, will grow from \$120 billion in the first year to \$220 billion in the last year, which is also a valid indicator of the success of their strategies.

Figure 5 helps to visualize what would happen in a pessimistic scenario; increasing the costs and expenses in the simulation leads Starbucks to destroy economic value:

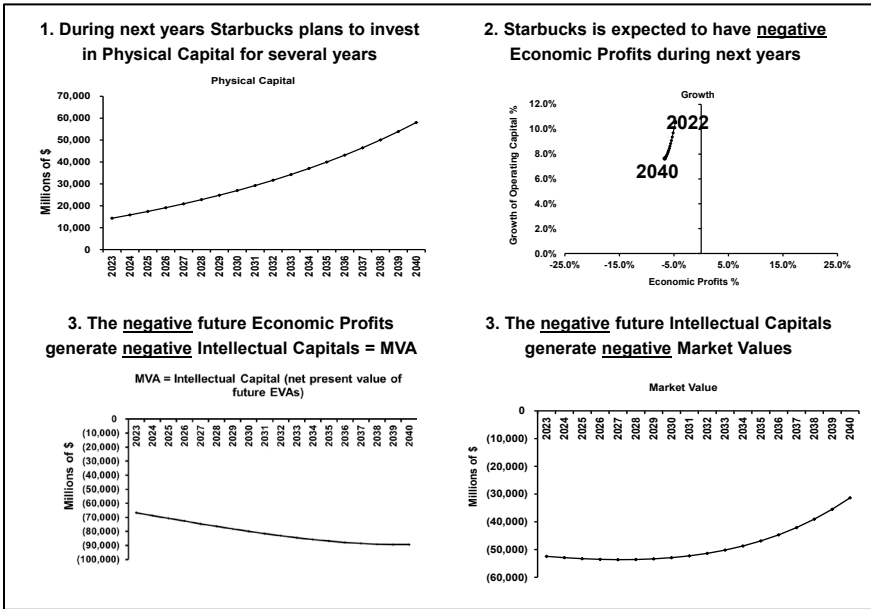


Figure 5 Starbucks economic value destruction. Pessimistic scenario

Figure 5.1 shows that Starbucks must invest \$15 billion in physical capital during the first year and higher values during the following years.

Figure 5.2 shows that the Economic Profits for the next few years are negative, between -4% and -6%; growth is the same, around 10% for the next few years.

Figure 5.3 shows a strongly negative MVA, Intellectual Capital. It indicates that Starbucks does not have unique resources to sustain competitive and innovation strategies.

Figure 5.4 shows that the market value of Starbucks is negative, the last indication of their unsuccessful strategies.

The conclusion is that if a company has negative Economic Profits, the more the company invests, the more economic value the company destroys. This dramatic situation impacts around 50% of all companies because Economic Profits compare their profits to the average profits of similar companies.

This example shows that both Economic Profits and MVA are critical to understanding whether an organization can create economic value.

Many excellent and modern companies invest money in physical assets. Their market value is similar to or lower than their physical assets. They cannot create Intellectual Capital or unique resources to support their strategies.

II. CRITICAL THINKING IN MODERN STRATEGIC MANAGEMENT

Introduction

The purpose of this chapter is to demonstrate the connection between economic value creation and critical thinking in strategic management.

After having published my previous book, I realized that the real importance of the approach proposed in the book and reproduced in the following pages is not the creation of economic value, but the transformation of strategic management from a chaotic discipline into a simple and clear discipline, with powerful critical thinking, which is key for a manager who must make decisions.

Framing strategic management in terms of the economic value creation of its environment and strategies is a powerful source of clarity of ideas, simplicity, consistency, knowledge integration, rationality, contingency approach, critical thinking, interdisciplinary thinking, practicality, relevance to non-business organizations, and the social dimension of strategic management.

Strategic management and economic value creation

This chapter is the backbone of this volume: how using the EVA Model in framing strategic management generates critical thinking.

Following the intuitions of Bennet Stewart and Leif Edvinsson, I have written two doctoral dissertations¹, two research² papers, three books³, and made presentations at several international⁴ conferences,

¹ Stegmann, Juan Pablo. *Using the EVA model for corporate stock investment; impact of knowledge, growth and monopoly power on economic value. An investigation on 168 U.S. firms.* Doctoral dissertation. University of Warsaw. 2005. Poland.

Stegmann, Juan Pablo. *An integrative and modern approach to Business Strategy and Entrepreneurship based on Value Based Management and Knowledge Management. Becoming a learning organization.* Doctoral dissertation. Pacific Western University. 2001. California.

² Stegmann, Juan. P. An integrated view of strategic management. *The Journal of Interdisciplinary Economics*. Vol. 18, pp. 275-302. 2007. Great Britain.

Stegmann, Juan. P. Towards an integrated strategic management. *Journal of Interdisciplinary Economics*. Vol. 18, pp. 35-69. 2007. Great Britain.

³ Stegmann, Juan. P. *Strategic Value Management. Economic value Creation and the Management of the Firm.* John Wiley and Sons Inc. 2009. Hoboken, New Jersey.

Stegmann, Juan Pablo. *Estrategia Empresarial Moderna. Cómo crecer, modernizarse, internacionalizarse y competir con éxito en el nuevo entorno.* IIEEC. 2002.

Stegmann, Juan Pablo. *Gestión estratégica moderna.* IIEEC. 2000. Argentina.

⁴ Stegmann, Juan Pablo. Strategic Value Management. A new generation of strategic management thinking. *Strategic Management Society. 2010 Annual Conference.* 2010. Rome. Italy.

Stegmann, Juan Pablo. *The foundations of Strategic Management: Relationship between Growth, Economic Value Creation, Knowledge Creation and Monopoly Power.* 2002. Academy of International Business, Southeast. Atlanta.

Stegmann, Juan Pablo. *Towards an interdisciplinary view of business ethics.* 2011. Norwich University. Vermont.

Stegmann, Juan Pablo. *Personal values versus stock value maximization. Conflicts and solutions.* Academy of Management. 2010 Annual Conference. Passion and Compassion in Management Practice and Research. 2010. Montreal. Canada.

Stegmann, Juan Pablo. *Gestión estratégica y valor.* Ecuadorian American Chamber of Commerce. 2010. Quito. Ecuador.

Stegmann, Juan Pablo. *An integrative approach to Modern Strategy, based in Value Based and Knowledge.* Third International Research Seminar. Coggin College of Business, University of North Florida / Centre for Europe, Warsaw University. 2003. Jacksonville. Florida.

which investigate the connection between strategic management and economic value creation based on the EVA metrics.

This research demonstrates five hypotheses⁵ that provide the metrics and framework for analysis to connect strategic management and economic value creation.

Two of these hypotheses are fundamental: 1. Market power and Economic Profits are positively correlated; 2. Growth and knowledge are positively correlated.

When we hear the word resources we automatically connect with the debate we had on political economy: the same intuitions, the success of organizations requires resources, in terms of Intellectual Capital, as Edvinsson summarized: human capital, social capital and structural capital.

Stegmann, Juan Pablo. *The foundations of Strategic Management: Relationship between Growth, Economic Value Creation, Knowledge Creation and Monopoly Power*. Academy of International Business, Southeast. 2002. Atlanta.

Stegmann, Juan Pablo. *An integrative and modern approach to business strategy and entrepreneurship, based on Value Based Management and Knowledge Management*. Second International Research Seminar. Coggin College of Business, University of North Florida / Centre for Europe, Warsaw University. 2002. Jacksonville. Florida

⁵ Hypothesis 1. Economic Profits and growth are not correlated.

Hypothesis 2. Growth and knowledge are positively correlated.

Hypothesis 3. Economic Profits and knowledge are not correlated.

Hypothesis 4. Market power and Economic Profits are positively correlated.

Hypothesis 5. Economic Profits and growth are negatively correlated for different levels of knowledge.

Market value of the firm	Physical capital	Initial invested capital	Operating capital, book value
	Intellectual capital: <ul style="list-style-type: none"> • Human capital: knowledge, experience, vision, mission, values, ideas, skills. • Social capital: relationships, networks, alliances, reputation. • Structural capital: systems, databases, knowledge bases, culture, processes, patents, trademarks, copyrights, trade secrets. 	MVA (Market Value Added)	$\frac{EP \text{ year } 1}{(1+r)} + \frac{EP \text{ year } 2}{(1+r)^2} + \dots + \frac{EP \text{ year } n}{(1+r)^n}$ <p style="text-align: center;">=</p> $(\text{Economic Profit}_{T+1} / \text{WACC}) + \text{NOPLAT}_{T+1} * (g/\text{ROIC}) * (\text{ROIC} - \text{WACC}) / [\text{WACC} * (\text{WACC} - g)]$

Figure 6 A leadership culture provides resources that enrich Intellectual Capital promoting organizational success and social well-being

To ensure our strategies are correct, we need to connect the strategies with the results: one crucial result of modern organizations is the company's market value.

The market value of a company is equal to the initial invested capital, which measures the physical capital of the company, plus the MVA, the market value added, which measures the Intellectual Capital.

Intellectual Capital is crucial: it means money. Intellectual Capital is the most significant part of the market value of modern organizations. For example, Microsoft's market value is 300 bn dollars, its physical capital is 30 bn, and its Intellectual Capital, its MVA is 270 bn. And why is it so high? Because Microsoft is based on knowledge and relationships and not on physical capital.

It is easy to measure physical capital: the company's book value comes from accounting. How do we measure Intellectual Capital?

McKinsey proposes this equation to assess the Market Value Added or the Intellectual Capital:

$$MVA = [EP_{\text{year } 1} / (1+r)] + [EP_{\text{year } 2} / (1+r)^2] + \dots + [EP_{\text{year } n} / (1+r)^n]$$

Intellectual Capital is measured by the Market Value Added, MVA, which reflects how much investors are willing to pay for a company

above its book value, based on the future cash generation of the company.

The future cash generation of the company is based on its resources, its Intellectual Capital: human capital (knowledge), social capital (relationships), and structural capital (systems and processes).

McKinsey⁶ formulates the MVA also with this equation that provides crucial insights for our analysis:

$$MVA = (\text{Economic Profit}_{T+1} / WACC) + \text{NOPLAT}_{T+1} * (\text{Growth}/\text{ROIC}) * (\text{ROIC} - WACC) / [WACC * (WACC - \text{Growth})]$$

This equation introduces three terms that help to connect economic value creation with strategic management, as Figure 6 shows.



Figure 7 Connecting strategic management with economic value creation

⁶ According to Copeland, the MVA of a company using a Continuing Value approach = $(\text{Economic Profit}_{T+1} / WACC) + \text{NOPLAT}_{T+1} * (g/\text{ROIC}) * (\text{ROIC} - WACC) / [WACC * (WACC - g)]$ where:

Economic profit_{T+1} = Invested Capital * (Return on Invested Capital – Opportunity Cost of Capital).

NOPLAT_{T+1} = The normalized NOPLAT (Net Operating Profits Less Adjusted Taxes) in the first year after the explicit forecast period.

g = The expected growth rate in NOPLAT in perpetuity.

ROIC = The expected rate of return on net new investment.

WACC = The weighted average cost of capital.

- **Economic Profits are based on competitive strategies.**

Economic Profits = Return on Invested Capital – Opportunity Cost of Capital.

The X-axis indicates the Economic Profits. The Economic Profits measure the profitability of the company compared to the profitability of similar companies.

To have positive Economic Profits, an organization must be more profitable than similar organizations based on its competitive strategies, satisfying its customers better than the competition.

The Economic Profits measure the company's profitability compared to the profitability of similar companies.

For example, if the profitability of company A is 15%, and the profitability of company B is 10%, company A has Economic Profits of 5% (15% minus 10%), company A creates economic value. But company B has Economic Profits of minus 5% (10% minus 15%), destroying economic value. Economic Profits are based on a comparison: to succeed, we need to be better than others by having better resources.

- **Growth is based on innovation strategies.** The Y-axis indicates sales growth, based on the innovation strategies.

To grow, an organization must be more innovative than similar organizations based on innovation strategies (new products, new customers, new markets, new businesses, new channels).

- **MVA, Market Value Added, is based on resource strategies.**

The Z-axis reflects the future, the MVA, based on the resource strategies.

To have a positive MVA (present value of future Economic Profits), an organization needs to have future positive Economic Profits and growth by having better resources than

similar organizations, based on its resource strategies, which support their future competitive and innovation strategies.

The MVA reflects the future, what the investors are willing to pay for the firm above its book value based on the expectation that the firm can generate positive Economic Profits and growth in the future.

The MVA is the most significant part of the economic value of modern organizations. 90% of the market value of firms such as Microsoft or Apple is their MVA.

Figure 7 presents the framework of analysis we will use in this chapter to link strategic management with economic value creation.

Figure 7 shows the correlations explained above: the X-axis measures the Economic Profits (Return on Invested Capital – Opportunity Cost of Capital) based on the competitive strategies, the Y-axis measures growth based on the innovation strategies, the Z-axis reflects the future, the MVA, based on the resource strategies.

This graph is tridimensional; however, for simplicity, the rest of this volume will reflect just two dimensions: Economic Profits and growth.

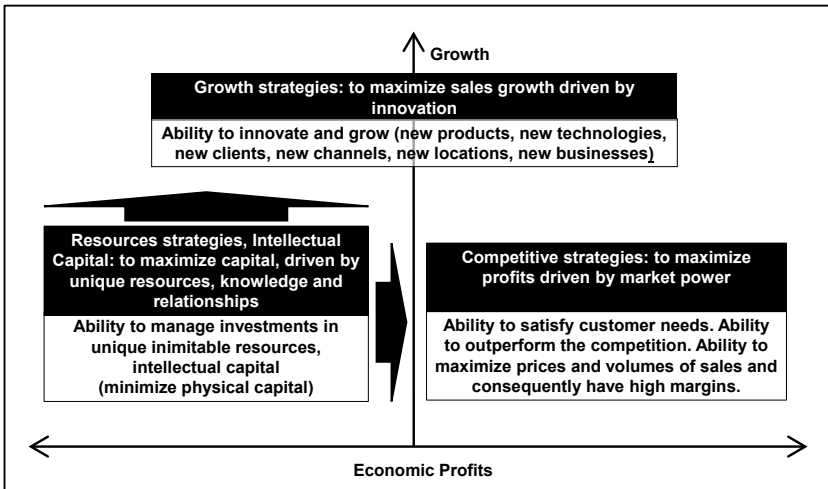
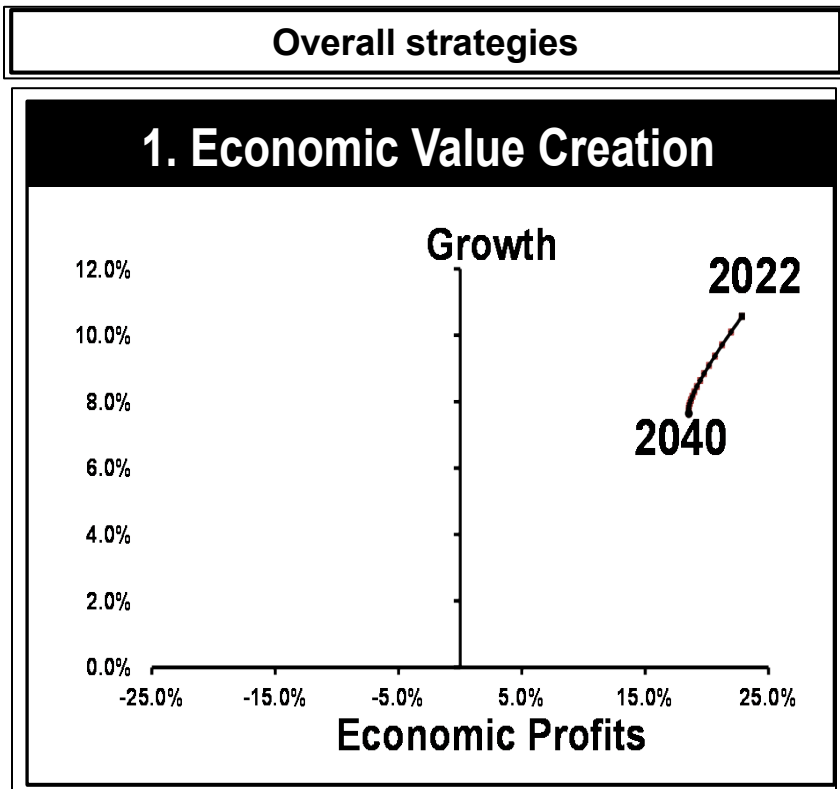


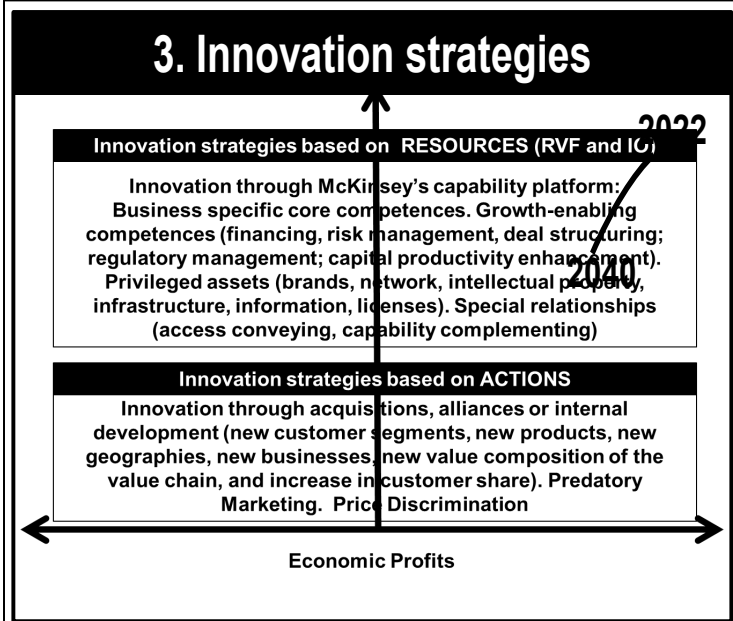
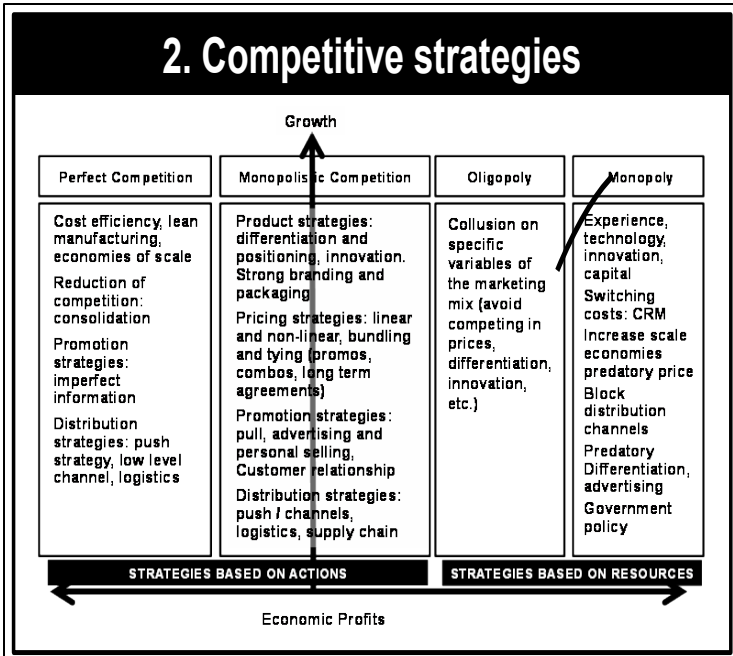
Figure 8 The EVA metrics introduce critical thinking into strategic management

Illustrative example. Integrating and simplifying strategic management

The EVA Model allows to frame strategic management and integrate strategic management with functional strategies: marketing, operations, organizations, human resources, finance, strategic planning, and international business, among others.

Figure 9 maps Starbucks' potential strategies aligned with economic value creation using the EVA model. Starbucks' economic value creation and strategies are my own opinion; they are fiction, not meant to describe Starbucks' reality.





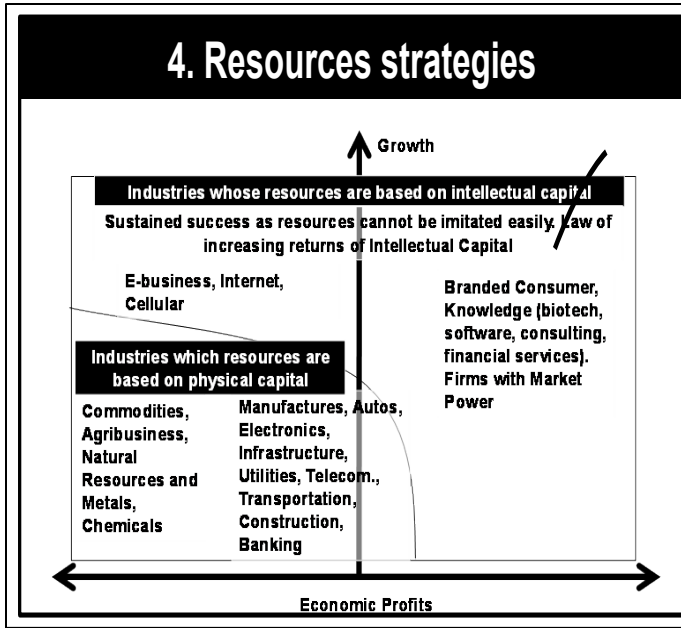


Figure 9 Example. Starbucks simulated future results (economic value creation) and recommended strategies

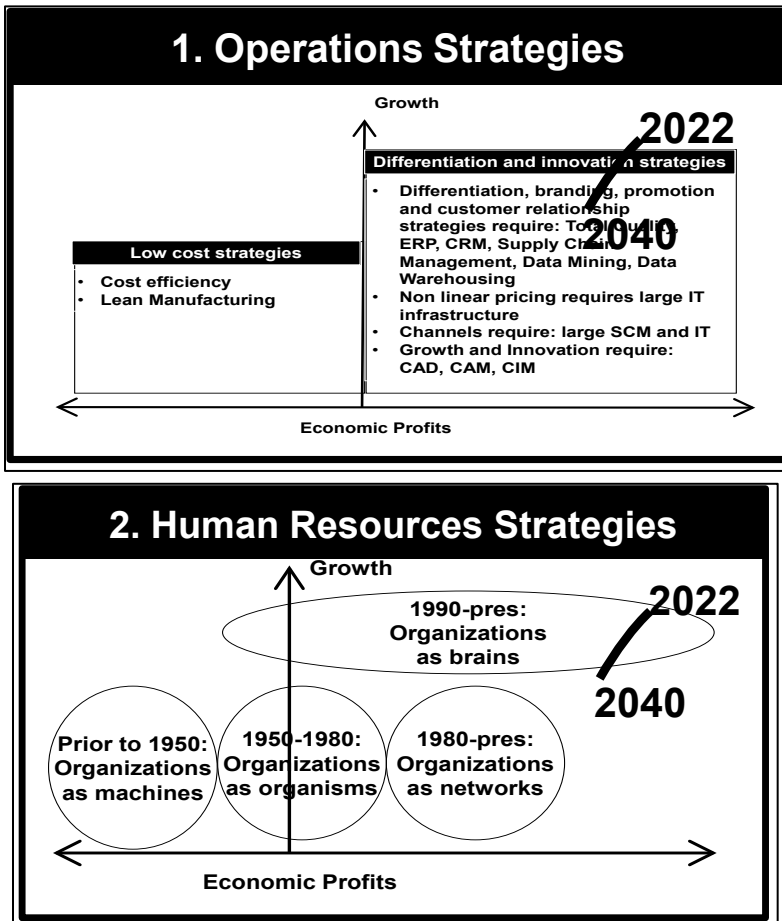
Figure 9.1. presents the financial simulation mentioned above, showing how Starbucks can have Economic Profits of 20%, annual growth of its operating capital of 10%, and an MVA Intellectual Capital of 8.4x (market value of \$118 bn/book value of \$14 bn), which places Starbucks in the high Economic Profits (at the right of the graph), high growth (at the top of the graph) and high Intellectual Capital quadrant (the third dimension of the three-dimensional graph that reflected in the future years).

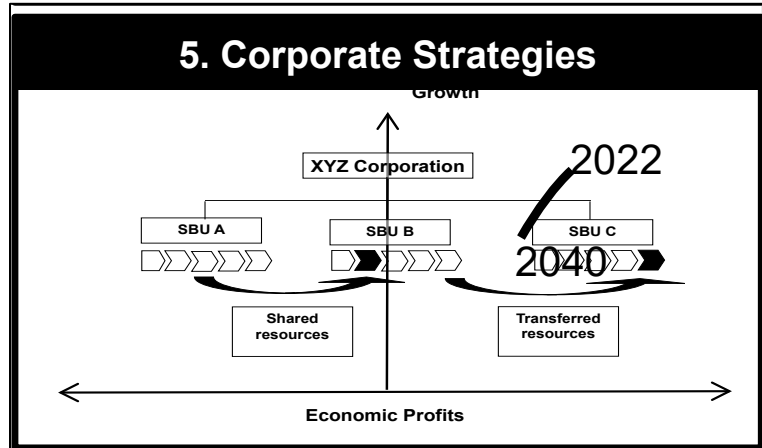
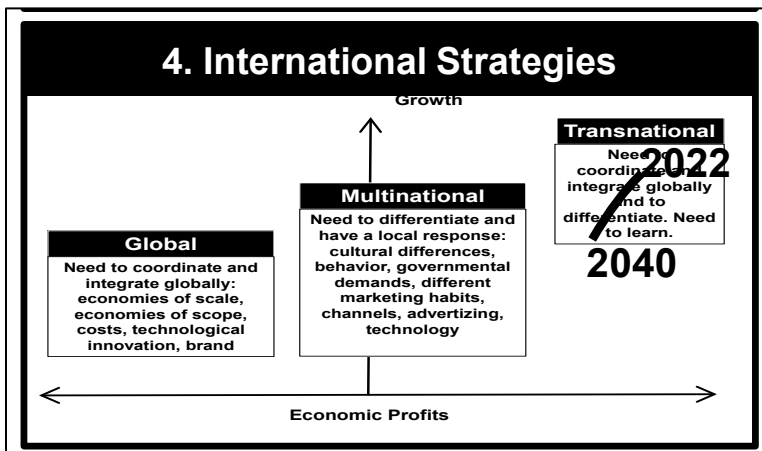
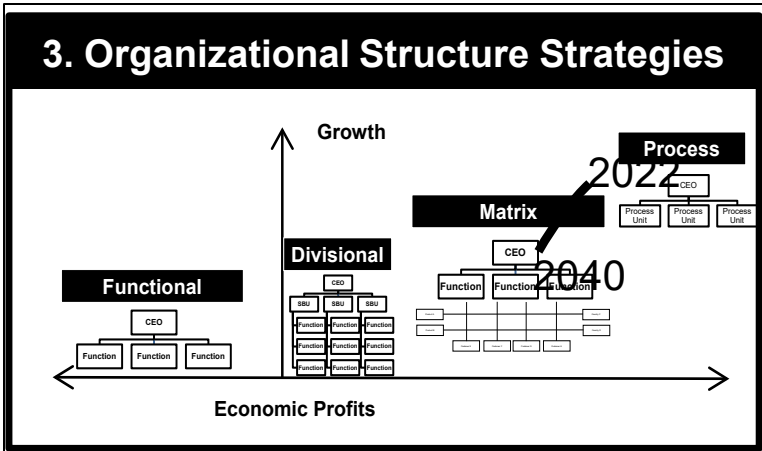
Figure 9.2. shows how high Economic Profits reflect very successful competitive and marketing strategies: strong differentiation, customer satisfaction, excellent quality, variety, quality of service, ambiance, speed of service, branding, locations, advertising, social media, relationships, consumer education, and music.

Figure 9.3. shows how high sales growth reflects a very successful innovation strategy: new restaurants, new channels, new products, international expansion, and partnerships.

Figure 9.4. shows how high Intellectual Capital reflects a very successful resource strategy: excellent global sourcing and logistics, suppliers, farmer support, real estate, roasting facilities, franchising, partnerships, channels, brand culture, social responsibility, and superior information technology.

Once the three general strategies have been established, it is possible to define the functional strategies.





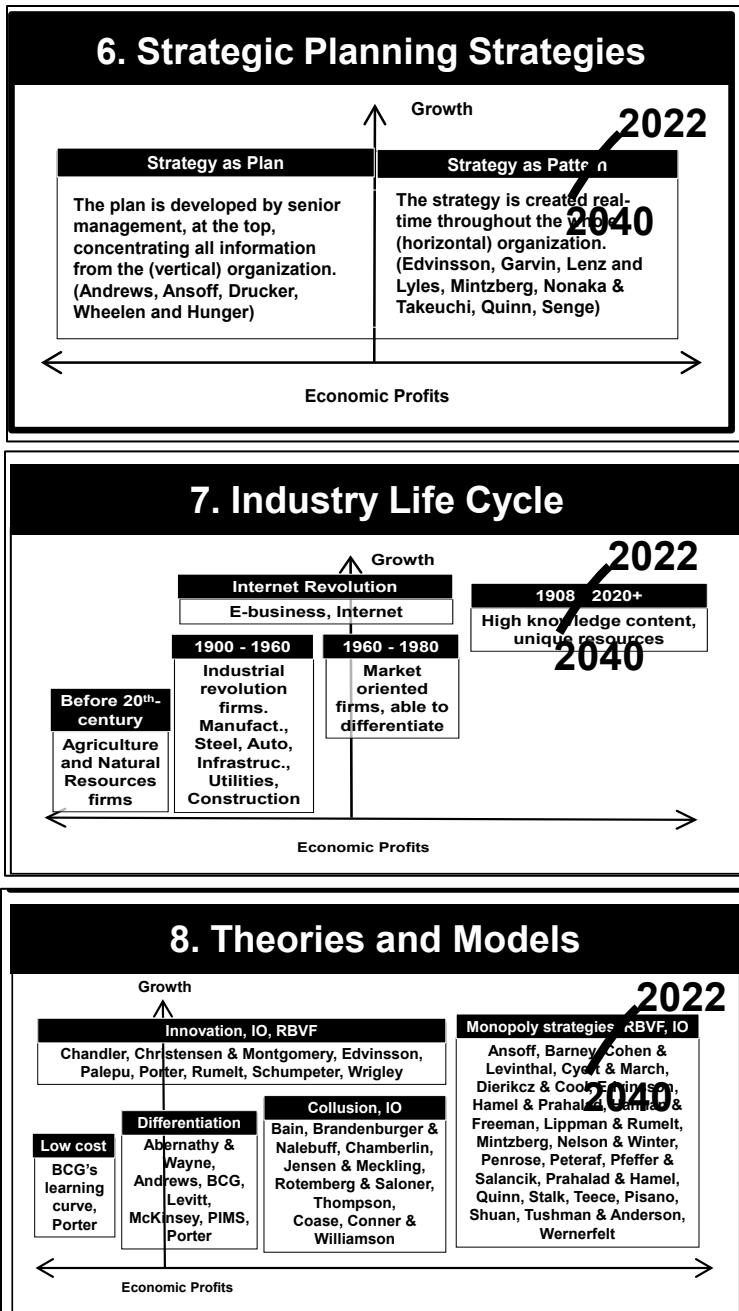


Figure 10 Example: strategic management and economic value creation.

Figure 10 shows the recommended functional strategies for Starbucks and the theories that support them: 10.1. Operations strategies, 10.2. Human resources strategies, 10.3. Organizational strategies, 10.4. International strategies, 10.5. Corporate strategies, 10.6. Strategic planning strategies, 10.7. Industry life cycle, and 10.8. Main theories and models.

Figure 10.1 shows how Starbucks' operations strategy reflects the need to support differentiation strategies, branding, promotion, customer relationship, employee relationship, strategic partners, requiring total quality, ERP, CRM, supply chain management, data mining, and data warehousing.

Figure 10.2 shows how the human resources strategy calls for an "organic" organization, sensitive to consumer tastes, able to observe, listen to, and please customers who expect a home-like experience and have a pleasant time. It also calls for a "network" organization to link the organization internally and with coffee and other product suppliers. It also calls for a "brain" organization capable of being creative, and innovative.

Figure 10.3 shows how these strategies require an organizational structure that combines a functional (organic organization), matrix (network organization), and process (brain organization, integrating functions into processes) structures.

Figure 10.4 shows Starbucks' need for a transnational strategy, that combines a global need (coffee is a commodity, technology and some foods are standard) with a multinational approach (some foods must rely on each country's tastes).

Figure 10.5 shows a corporate strategy that requires synergies, sharing and transferring competencies.

Figure 10.6 shows how the strategic planning strategy reflects the need for planning that emerges from the entire organization, leveraging the knowledge and relationships of all employees.

Figure 10.7 shows the industry life cycle, how Starbucks prevails based on transforming itself into an organization of unique resources: knowledge and relationships.

Figure 10.8 shows the main theories and models that support Starbucks' strategies based on unique resources.

Critical thinking and the overall strategies: competition, innovation, and resources

This chapter deepens the use of the EVA Model mentioned above, linking strategic management with economic value creation.

This chapter uses the metrics of the EVA Model, using it to frame strategic management (competitive, innovation, and resource strategies), functional strategies (marketing, operations, human resources, organizations, planning, international strategies), and other strategic management models (BCG, GE-McKinsey, Miles, and Snow), and strategic management theories.

Critical thinking and competitive strategies

Figure 11 shows how the EVA Model allows framing the connection between the competitive environment, competitive strategies, and economic results (Economic Profits):

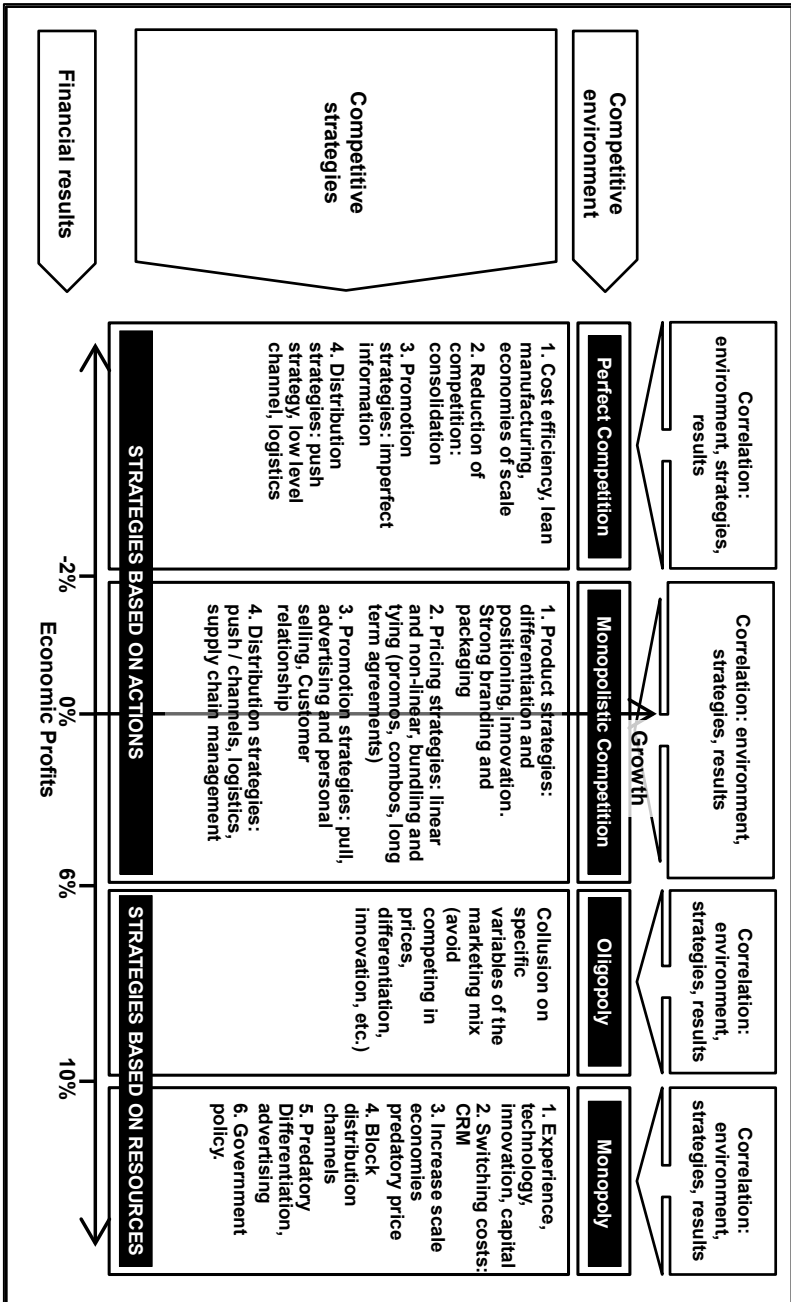


Figure 11 The EVA Model promotes critical thinking in competitive strategies

This graph is fundamental: the EVA Model helps develop systemic thinking and critical thinking, showing which strategies produce good or bad results and which environments they are effective.

Systems thinking is reflected in how the EVA Model connects competitive environments, competitive strategies, and results. Systems thinking and the EVA metrics enable the development of critical thinking.

The graph confirms that stock-based competitive strategies (on the left of the graph) do not have a significant return in terms of negative Economic Profits. In contrast, resource-based competitive strategies (on the right of the graph) have very positive Economic Profits. This confirms the centrality of resources, a central theme of this volume, which supports the centrality of Intellectual Capital, as measured by MVA.

For example, on the left of the graph, industries that operate in perfect competition usually sell commodities, such as standard chemicals, steel, sugar, and coal; their strategies seek to reduce costs; they have very low profitability, and Economic Profits are less than -2%.

Industries that operate in monopolistic competition have limited differentiation, such as fast food, personal hygiene products, automobiles, and household appliances; they have low profitability, Economic Profits close to 0%.

Industries that operate as oligopolies have little competition, such as colas, peanut butter, and corn flakes; their returns are much higher, and their economic Profits are above 6%.

Industries that operate as monopolies, such as operating systems, have very high profitability, with Economic Profits above 10%.

Perfect competition: environments, strategies, and results

Figure 11 shows how organizations operating in perfect competition (on the left of the graph) tend to have low profitability (Economic Profits less than -2%).

Typical sectors operating in perfect competition are commodities, agribusiness, natural resources, metals, and chemicals.

Since perfect competition organizations cannot determine prices (markets determine them), and products cannot be differentiated, the key competitive strategies are to keep costs low by increasing efficiency, lean manufacturing, or generating economies of scale.

To reduce the intensity of competition, companies need to consolidate the industry through acquisitions or alliances.

Promotional strategies can be risky: the more information, the more perfect the competition, and the more power the customer has to choose the most aggressive competitor.

Distribution strategies are limited to the push strategy (sell using channels) with a very frugal low-level channel, combined with low-cost logistics, which simplifies distribution and reduces cost.

Monopolistic competition and marketing strategies: environments, strategies, and results

Figure 11 shows how organizations operating in monopolistic competition have close to 0% of Economic Profits. Their products can be differentiated; however, differentiation is mainly based on actions that competitors can imitate. In the long run, investment efforts are not always recovered because of the intense competition.

Typical industries in monopolistic competition are manufacturing, food, automobiles, electronics, consumer products, transportation, and commercial banking.

Competitive strategies are the ones recommended by most marketing management textbooks.

Product strategies are based on differentiation and positioning, with brands and packaging identifiable by the consumer.

Pricing strategies allow for linear and non-linear pricing (promotions, combos, long-term agreements).

Promotion strategies are related to pull strategies, such as advertising, personal selling, and customer relationship management.

Distribution strategies can be based on more sophisticated push strategies, such as higher-level channels with more added value (insurance, advice, financing) and advanced logistics and supply chain management.

Oligopolistic competition: environments, strategies, and results

Companies operating in oligopolistic competition tend to have higher profitability (Economic Profits above 6%).

Some industries seem to operate as oligopolies: colas, cornflakes, peanut butter, mobile telephony, oil, and some branded products.

The core of an oligopoly strategy is that organizations do not compete on some aspects of the marketing mix, typically price.

Figure 11 also shows that perfect and monopolistic competition strategies are based on actions. In contrast, the strategies of oligopolies and monopolies are resource-based. The critical resource of oligopolies is their maturity, knowledge, and competitors' ability to avoid competing.

Monopoly: environments, strategies, and results

Companies that operate as a pure monopoly have even higher profitability (Economic Profits over 10%).

Typical monopolistic companies seem to be Microsoft (on Windows and Office), Intel (on some products), some utilities with market protection, some pharmaceutical companies (on patent-protected products), and others.

Monopolistic strategies are based on unique and inimitable resources. The better these resources are, the higher the barriers to entry. The word "resources" here has a broader meaning: expertise, technology, innovation, capital, customer or channel relationships, switching costs of customers, economies of scale or scope, control of channels, strong image, government policy such as patents or market protection, utilities, and so on.

In some cases, new entrants are inevitable, and in such cases, a monopolist must soften competition and play an oligopolistic strategy of "friendly collusion".

Illustrative example. Starbucks' competitive strategies

Figure 12 presents my opinion of Starbucks' financial projections and competitive strategies.

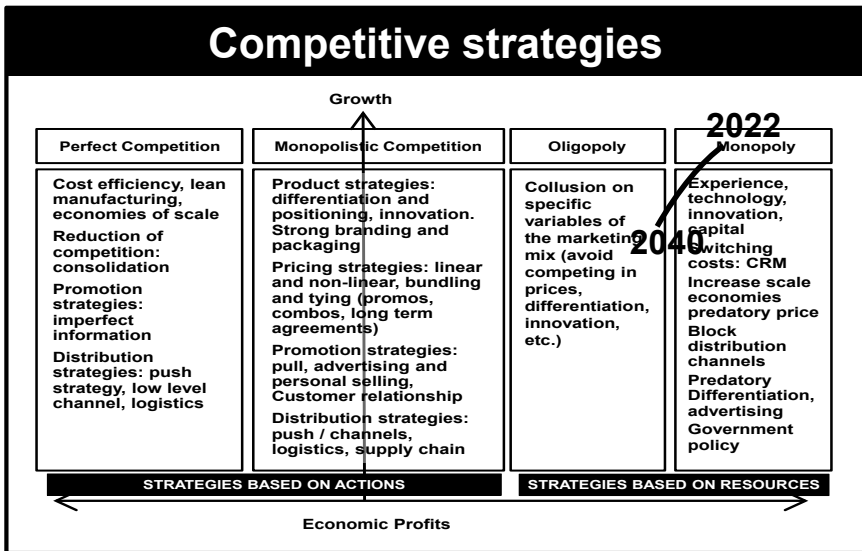


Figure 12 Starbucks (based on the simulation above). The EVA Model and competitive strategies

These financial projections show that Starbucks has Economic Profits of 20% for the next few years, resulting from its competitive strategies: strong differentiation, customer satisfaction, excellent quality, variety, service quality, ambiance, speed of service, branding, locations, advertising, social media, relationships, consumer education, music.

Figure 12 reflects a critical thinking exercise. It is a map that connects the environment, strategies, and results and is also based on metrics, the core of modern critical thinking, and leads to clear conclusions.

Critical thinking and innovation strategies

McKinsey presents an excellent work for analyzing growth strategies, "Staircases to growth"⁷, emphasizing the role of resources.

The EVA Model allows framing innovation strategies, connecting them with their capacity to create economic value and the other two general strategies: competitive and resource strategies.

The EVA Model allows to reformulate McKinsey's intuitions:

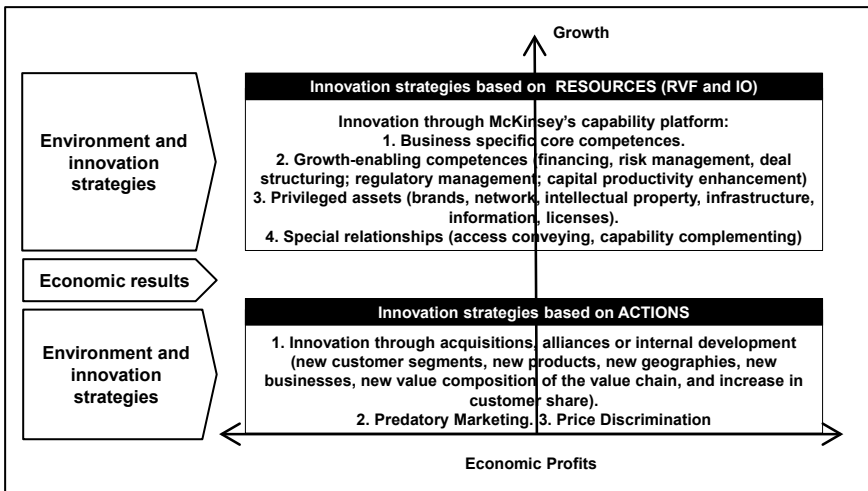


Figure 13 The EVA Model promotes critical thinking in innovation strategies

⁷ Baghai, Mehrdad; Coley, Stephen C.; White, David. Staircases to growth. *The McKinsey Quarterly*. 1996. Number 4. McKinsey & Company. 1996

Figure 13 allows us to visualize how the EVA Model helps develop systemic thinking and critical thinking, showing which strategies produce good or bad financial results and in which environments they are effective.

Systems thinking is reflected in how innovation strategies link environments, innovation strategies, and results. Systems thinking and the EVA metrics enable the development of critical thinking.

Figure 13 shows that action-based innovation strategies (at the bottom of the graph) do not have significant and sustained growth. In contrast, resource-based innovation strategies (at the top of the graph) do. This confirms the centrality of resources, a central theme of this book, which supports the centrality of Intellectual Capital as measured by MVA.

Figure 13 shows that growth with negative Economic Profits destroys economic value. Therefore, innovation is not advisable in environments of intense competition (to the left of the EVA Model) unless the company expects to gain market power and, after a while, move to the right of the model with growth and positive Economic Profits. The Blue Ocean Strategies model defends this view. This is the case of Apple and Amazon, which, although operating in hyper-competitive environments, are successful in their innovation strategy based on their unique, innovative resources.

Illustrative example. Starbucks innovation strategies

Figure 14 presents my opinion of Starbucks' financial projections and innovation strategies.

According to them, Starbucks' 10% growth reflects its innovation strategies: new restaurants, new channels, new products, international expansion, new partners, and new alliances.

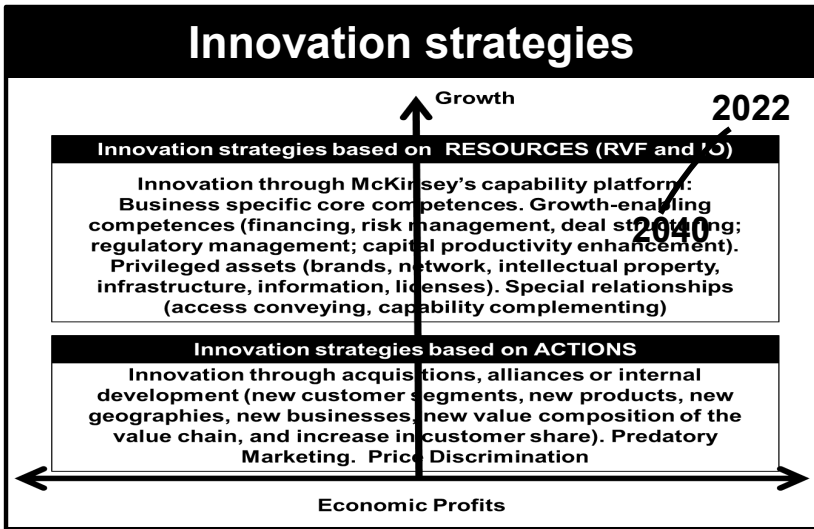


Figure 14 Starbucks (based on the simulation above). The EVA Model and innovation strategies

Critical thinking and resource strategies

Resource strategies are a crucial part of economic value creation in strategic management, based on their power to help predict an organization's future.

First: Figure 12 shows how resources are the backbone of competitive strategies. Figure 13 shows how resources are the backbone of innovation strategies.

Second: the economic value of a company is based on its resources, physical capital, and Intellectual Capital (knowledge, relationships, and processes).

Intellectual Capital is the key to successful competitive and innovation strategies, generating higher profitability and sales growth.

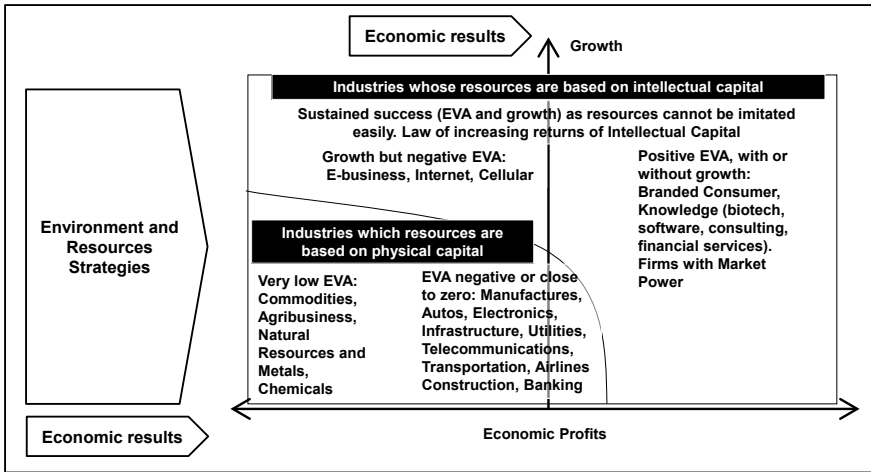


Figure 15 The EVA Model promotes critical thinking in resources strategies

Intellectual Capital underpins the value of an organization's intangible assets

Leif Edvinsson explains the role of Intellectual Capital, which underpins the intangible part of the organization's economic value, based on his work in transforming Skandia into a thriving international organization:

Skandia divides market value into financial capital and Intellectual Capital. Intellectual Capital is further divided into structural capital (defined as what stays in the company when people go home: brands, trademarks, written process procedures, etc.) and human capital (everything that stays in the company). Structural capital includes customer capital and organizational capital, which represent the external and internal focus, respectively, of structural capital.

Structural capital includes customer capital and organizational capital, which represent the external and internal focus, respec-

tively, of structural capital. Organizational capital consists of innovation and process capital. Process capital is the sum of formalized within the company: manuals, best practices, manual resources, best practices, intra-network resources, project libraries, are part of the capital. Innovation capital is what creates tomorrow's success: it is the source of renewal for the entire company, and includes assets and intellectual property.⁸

- Market Value:
 - Financial Capital.
 - Intellectual Capital:
 - Human Capital.
 - Structural Capital:
 - Customer Capital.
 - Organization Capital:
 - Process Capital.
 - Innovation Capital:
 - Intellectual property.
 - Intangible assets.⁹

On this basis, Edvinsson formulated the Intellectual Capital model:

Intellectual Capital is the intangible value of a company, of which intellectual property intellectual property is but one component. It encompasses the people in the organization (human capital), the value inherent in their relationships (relational capital), and whatever is left over when employees go home (structural capital). The term is used in academia in an attempt to account for the value

⁸ Edvinsson, Leif; Roos, Johan; Roos, Goran; Dragonetti, Nicola Carlo. *Intellectual Capital. Navigating the New Business Landscape*. Macmillan Press Ltd. UK. 1997. p. 29.

⁹ Ibid. p. 29.

of intangible assets that do not appear explicitly on corporate balance sheets. Intellectual Capital is often considered a hidden asset. It can be broadly defined as all the information resources available to a company that a company has at its disposal and can use to make profits, win new customers, create new products or improve the business. products or improve the business. As technology and process process improvements become a differentiating factor within the modern enterprise, Intellectual Capital is likely to become an even greater force in the marketplace.¹⁰

The advantages of Intellectual Capital boosting the economic value of organizations

According to Edvinsson, Intellectual Capital evolved sequentially:

In the evolution of Intellectual Capital there have been four distinct phases so far:

The first phase focused on visualizing intangibles from a reporting perspective. This is seen in the prototype supplementary accounting in Skandia, and is now called for by organizations such as the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) in the US and the Danish government.

The second phase concerns the injection of human capital, often referred to as the addition of skills or knowledge management. It is about the aspirations and potential of the new knowledge nomads. It's as much about the search for talent to be brought in - through mergers between companies, for example - as it is about

¹⁰ Edvinsson, Leif; Malone, Michael S. *Intellectual Capital. Realizing Your Company's True Value by Finding Its Hidden Brainpower.* Harper Business. 199. New York. p. 146.

the effectiveness of knowledge management and the installation of IT-based knowledge systems.¹¹

Edvinsson explains the interaction between these three resources, highlighting the leverage effect between them, which he describes as, instead of $1+1=2$, this multiplier effect leads to $1+1=11$.

The third phase is the systematic transformation of human capital into structural capital as a multiplier, with a much more sustainable profit potential for the organization. This is a refined approach based on the second phase, but focused on packaging knowledge into multiplier recipes that are shared globally and rapidly, such as the emerging knowledge exchanges, like www.knexa.com. This shifts the focus from human capital leadership to structural capital as a multiplier of human talents. It is the shift to the collective growth of structural capital, often simplified to knowledge sharing. (Knowledge sharing is so important that it is one of only three business processes - along with resource and people allocation - that GE chief Jack Welch was happy to take responsibility for.)) These knowledge recipes are set to become the new global export commodities, rather than commodity flows.

The fourth phase is the injection of structural capital from an external source. This has a turbo effect on the maximization of IC. It combines different types of structural capital constellations for the co-creation of new opportunities. of new opportunities. It focuses on the entrepreneurial space of co-creation, the unique space of imagination and organizational stretching where human capital and structural structural structural capital. This phase is about sharing and renting each other's invisible structural capital.¹²

¹¹ Edvinsson, Leif. Corporate Longitude. *What you need to know to navigate the knowledge economy*. Financial Times - Prentice Hall. 2002. pp. 93-94.

¹² Ibid. pp. 93-94.

The marginal cost of each new combination of Intellectual Capital resources is very low, but the potential for generating new revenues is significant.

Physical capital follows the law of diminishing returns (the more it is invested, the less it produces). It wears out and deteriorates. It can be imitated quickly, leading the industry to perfect competition.

Intellectual Capital, on the other hand, can be reproduced without much additional investment (the cost of producing a new Microsoft Windows, which sells for several hundred dollars, is the cost of a CD, among others, while the cost of producing a ton of steel, with high physical capital, is not much lower than its price).

Intellectual Capital can grow steadily with investments (that is why Microsoft's market value is ten times its book value, while in the case of US Steel, the market value is three times its book value).

Intellectual Capital does not wear out like physical capital. On the contrary, knowledge and relationships can grow without limit. When Rover and Honda entered a strategic alliance a few decades ago, Honda allied with Rover, and received a large part of Rover's Intellectual Capital, knowledge, and relationships in the European market, growing ever since.

Illustrative example. Starbucks' resource strategies

Figure 16 is another of the pillars of this volume. It shows that companies with positive Economic Profits and growth have high Intellectual Capital, defined human capital, social capital, and structural capital.

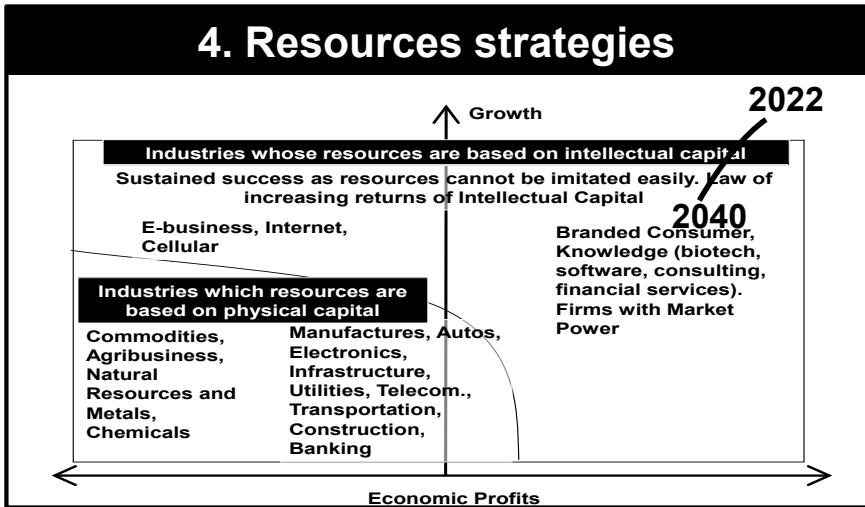


Figure 16 Starbucks unique resources versus the coffee industry

Figure 16 is very illustrative because the first intuition would be that any coffee producer should be in the lower left part of the graph. Since coffee is part of agribusiness, coffee is a commodity with low margins and little capacity to create Intellectual Capital. However, Starbucks is at the top right of the graph, with Intellectual Capital based on its resource strategies. Therefore, based on its resource strategies, a company can create economic value, overcoming being in an industry that does not create economic value.

Critical thinking in industry timeline

The EVA Model helps analyze the timeline of industries, which depends on the environment, strategies, and results, which is a source of critical and interdisciplinary thinking, integrates, and simplifies strategic management.

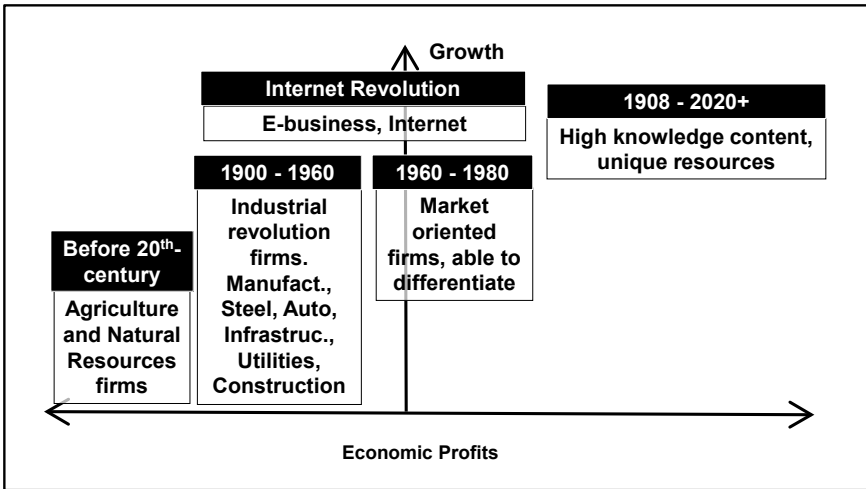


Figure 17 The EVA Model promotes critical thinking framing the industry timeline

On the left of Figure 17, with negative Economic Profits and low growth, the first group reflects industries that existed before the 20th century and have become mature industries. High competition has transformed their products into commodities, standard products, and made their prices similar to their marginal costs. Their competitive strategy is low cost, and their capacity for superior growth is limited.

The second group (1900-1960) reflects large factories with significant physical capital and low capacity for differentiation, which generates their low Economic Profits.

The third group (1960-1980) reflects market-oriented companies. Modern marketing strongly influences their strategies, with Economic Profits close to 0% because they are based on actions and easily imitable by competitors.

The next group up in the chart is that of industries heavily impacted by the new economy. Although growing rapidly, not all of them can create economic value due to high levels of competition and low capacity for differentiation.

The last group toward the right of Figure 17 represents companies with unique resources, high Intellectual Capital, high market power, or

high ability to collude with their competitors. Consequently, their uniqueness allows them to have good Economic Profits.

Critical thinking in the discipline of strategic management

The EVA Model helps analyze many authors, theories, and models of strategic management, which also depend on the environment, strategies, and results, which is a source of critical and interdisciplinary thinking, integrating and simplifying strategic management.

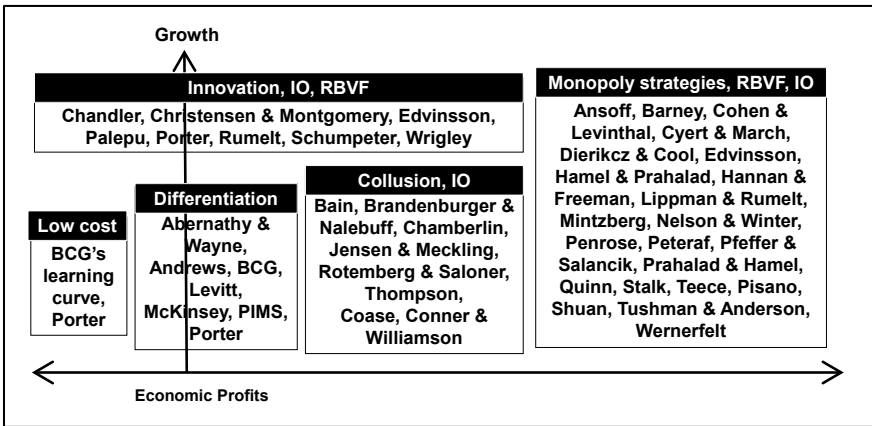


Figure 18 The EVA Model promotes critical thinking framing strategic management theories and authors

On the left side of Figure 18, the main theories and models are related to commodity industries, perfect competition environments, low-cost strategies, and negative Economic Profits. As most of these organizations operate in traditional industries, products have been transformed into commodities after many years, reaching similar levels of cost efficiency and competition based on cost reduction led to an environment of perfect competition, transforming products into commodities, low prices leading to low prices negative Economic Profits.

In the lower middle part of the chart, during the 1960s and 1970s, theories and models prescribed differentiation to reduce competition

and increase profitability. The term "differentiation" consolidates a set of theories to produce monopolistic competition. But, in the late 1970s, it became clear that the strategic actions of monopolistic competition had limited effectiveness: it is expensive to implement such strategies and, since they are based on actions, it is relatively easy for competitors to imitate such actions, margins are limited leading to Economic Profits close to 0%.

The following two groups toward the right of Figure 18, their theories and models are based on Industrial Organization (IO) and game theory; they rely on non-competition strategies to increase margins based on oligopoly strategies, collusion, or development of alliances with competitors to soften competition, allowing higher Economic Profits, around 6%.

To the right of Figure 18, monopoly strategies reflect theories and models presented by Industrial organizations, which are based on unique resources.

In the vertical dimension of Figure 18, innovation strategies were introduced by Schumpeter through his "Creative Destruction" approach. Strategic actions are expensive, and competitors can imitate them, leading to the destruction of economic value. The EVA Model shows that innovation strategies are successful based on unique and inimitable resources that simultaneously generate growth and market power.

In this way, the EVA Model allows connecting authors, theories, and strategic management models with the environment, other strategies, and with results.

Critical thinking and functional strategies

The previous pages present the general strategies (competitive, growth, and resource strategies); the functional strategies (operations, human resources, organization, corporate, and strategic planning strategies) follow the same logic.

Operations Strategies

The EVA Model helps link operations strategies with the environment, strategies, and results, a source of critical and interdisciplinary thinking that integrates and simplifies strategic management.

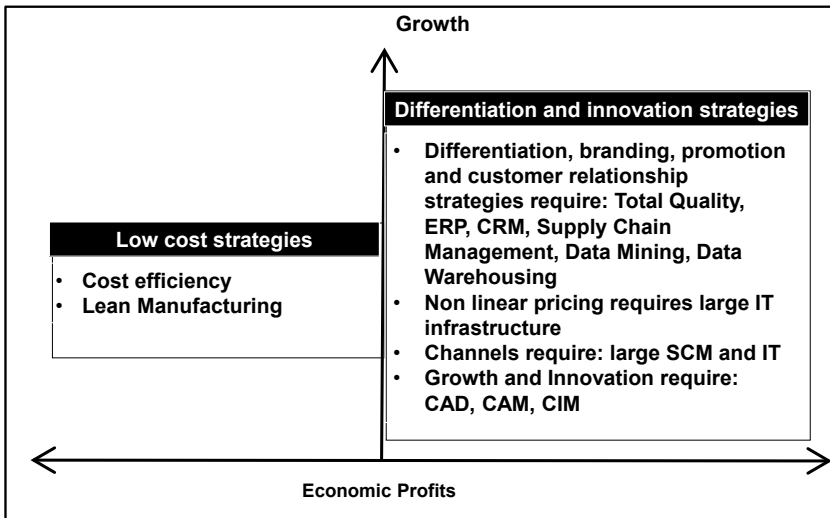


Figure 19 The EVA Model promotes critical thinking in operations strategies

At the left of Figure 19, in the negative Economic Profits quadrant, when low cost and efficiency are the primary competitive strategies, the organization must focus on cost efficiency and lean manufacturing as operations strategies.

At the right of Figure 19, in the positive Economic Profits quadrant, when differentiation and innovation are the primary competitive strategies, the organization must be integrated into the environment. The organization must know customers' needs, what the competition is doing, and what technology providers can do to make strategic decisions. This requires some specific operations strategies, such as total quality management (to orient internal processes to the customer) or information technology resources such as enterprise resource planning

(ERP to organize information efficiently), customer relationship management (CRM to stay on top of customer relationships), supply chain management (SCM to manage the supply process), data mining and warehousing (to identify business issues that may affect the customer).

The EVA Model helps connect operations strategies with the environment, strategies, and results.

Organizational strategies

The EVA Model helps analyze the organizational strategies, contingent on environments, strategies, and results, which is a source of critical and interdisciplinary thinking and integrates and simplifies strategic management.

Figure 20 frames the organization models proposed by Gareth Morgan¹³ in "Images of Organization".

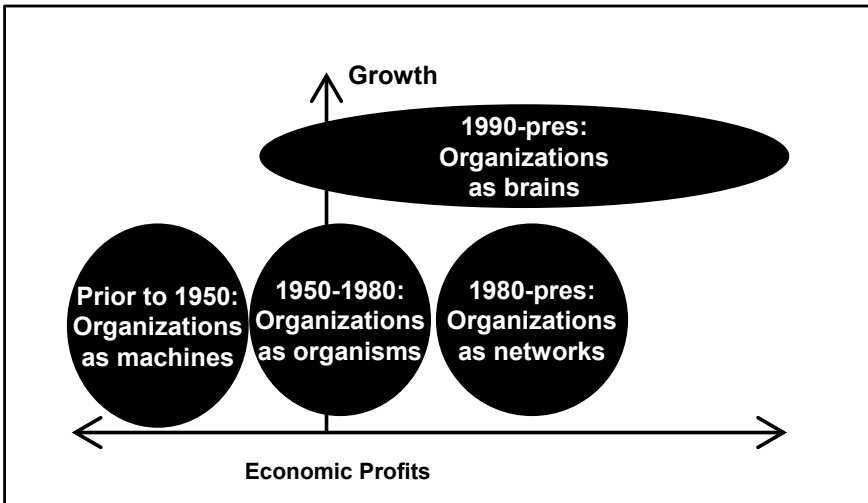


Figure 20 The EVA Model promotes critical thinking in organizational strategies

¹³ Morgan, Gareth. *Images of Organization*. SAGE Publications. 2006.

At the left of Figure 20, Morgan’s organizations as machines are indicated in environments of perfect competition, with low-cost strategies and negative Economic Profits.

Morgan’s organizations as organisms are suitable for monopolistic competition strategies, which require a strong market orientation and, consequently, the ability of the organization to connect with the environment, to be able to know, see, and feel what the stakeholders feel; this generates differentiation, and consequently a better Economic Profits.

Morgan’s organizations as networks are suitable in oligopolistic environments, where organizations follow collusive strategies based on the knowledge of competitors' actions and generate positive Economic Profits.

Morgan’s organizations as brains are suitable in monopolistic environments, with high innovation and possibly high market power, leading to sales growth and very positive Economic Profits.

Morgan’s insights help frame the types of organizational structures in the EVA Model.

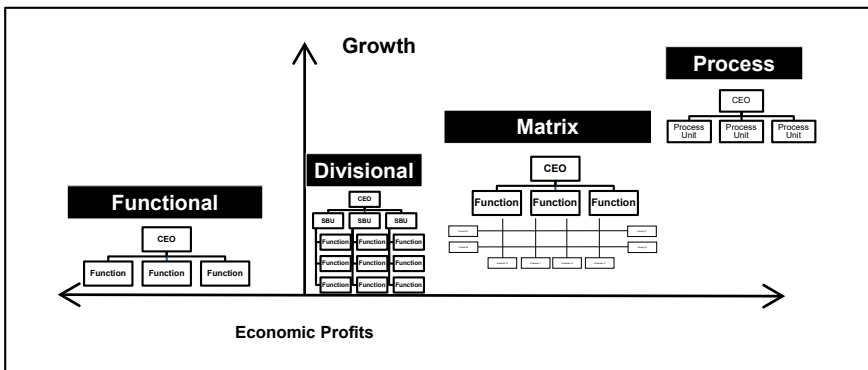


Figure 21 The EVA Model promotes critical thinking in organizational structure strategies

As Figure 21 indicates, a functional structure can be very organic for small companies, as the links between areas can be strong, flexible,

and adaptable. However, the rigidity and lack of links between units in large organizations make this structure mechanistic.

The EVA Model helps to explain the benefits of this mechanistic organization with the industry timeline and the strategies described above. This structure is designed for efficiency and is desirable for organizations that operate in stable and predictable environments, such as railroads, commodities, and water supply. This structure works well in perfectly competitive environments requiring efficiency, predictability, and low costs.

When the strategic environment is more competitive, growing, innovative, dynamic, and sophisticated and experiences frequent changes in products, the organization must be more proactive, creative, flexible, intelligent, and innovative; this requires an organic organization. This requires organic structures, such as divisional, matrix, and process.

The divisional structures by customer, location and product are quite organic organizations, able to listen, see, feel what the environment feels, and react to their needs.

The matrix structure coordinates units within other parts of the structure, whether functional, divisional, or process. The matrix structure is even more organic than the divisional and brain type of organization: adaptable, innovative, smart, flexible, with good communication and creativity.

The process structure is a by-product of the re-engineering concept of having several functions under one person or team. This provides a much greater degree of flexibility. Not surprisingly, it is particularly suited to innovation strategies (product development, business development, new markets) and competitive strategies (gaining market power through customer service, technical support, and logistics processes).

In this way, the EVA Model helps to link organizational strategies with the environment, strategies, and results.

Corporate Strategies

The EVA Model helps analyze corporate strategies, contingent on environments, strategies, and results, which is a source of critical and interdisciplinary thinking and integrates and simplifies strategic management.

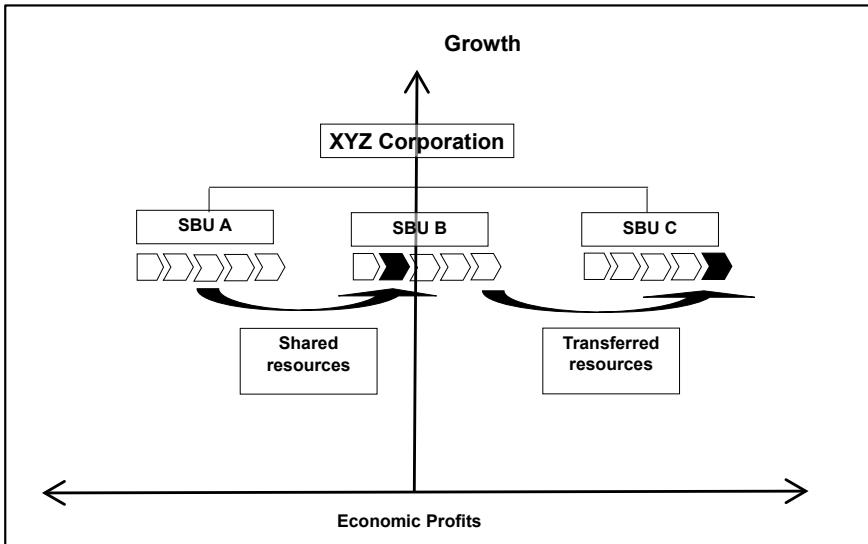


Figure 22 The EVA Model promotes critical thinking in corporate strategies

According to Michael Porter’s¹⁴ seminal research, “From Competitive Advantage to Corporate Strategy”, the benefits of having corporations with several strategic business units (SBU in the graph) should be based on the impact of resources, aligning corporate strategy with resource strategies.

¹⁴ Porter, Michael E. From Competitive Advantage to Corporate Strategy. *Harvard Business Review*. 1987 <https://hbr.org/1987/05/from-competitive-advantage-to-corporate-strategy>

According to Porter, a corporate strategy may generate synergies by sharing or transferring resources between business units.

The EVA Model helps frame this analysis by considering the impact of these synergies on Economic Profits and growth, considering how shared or transferred resources can empower the competitive and innovation strategies of the organization.

Strategic Planning

The EVA Model helps analyze the types of strategic planning, which also depend on the environment, strategies, and results, which is a source of critical and interdisciplinary thinking, integrates, and simplifies strategic management.

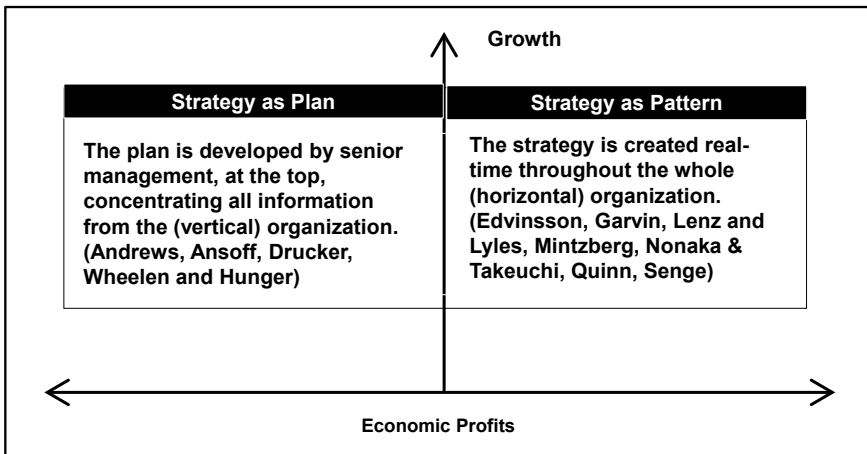


Figure 23 The EVA Model promotes critical thinking in strategic planning

At the left of Figure 23, strategy is part of a plan developed at the organization's top. This is typical in mature industries that operate in stable, predictable environments where it is difficult to differentiate

and innovate. Their Economic Profits are low because products become commoditized and, due to intense competition, organizations tend to be very similar.

At the right of Figure 23, strategy is conceived as a pattern. This is typical in environments where companies require high differentiation and innovation, flexibility and agility are crucial, and Intellectual Capital is vital. In rapidly evolving environments, strategic variables are constantly changing, and knowledge and relationships become critical resources necessary to ensure the success and survival of a company. Strategic planning as a pattern refers to the need to use all the knowledge, experience, and relationships available throughout the organization, generated spontaneously by employees who interact with customers, suppliers, products, and manufacturers, like an organic, brain organization.

The EVA Model helps to link strategic planning with the environment, strategies, and results.

International strategies

The EVA Model helps connect international strategies and organizations with the environment, strategies, and results, a source of critical and interdisciplinary thinking, integrating and simplifying strategic management.

Figure 24 shows how the EVA Model helps to analyze international strategies:

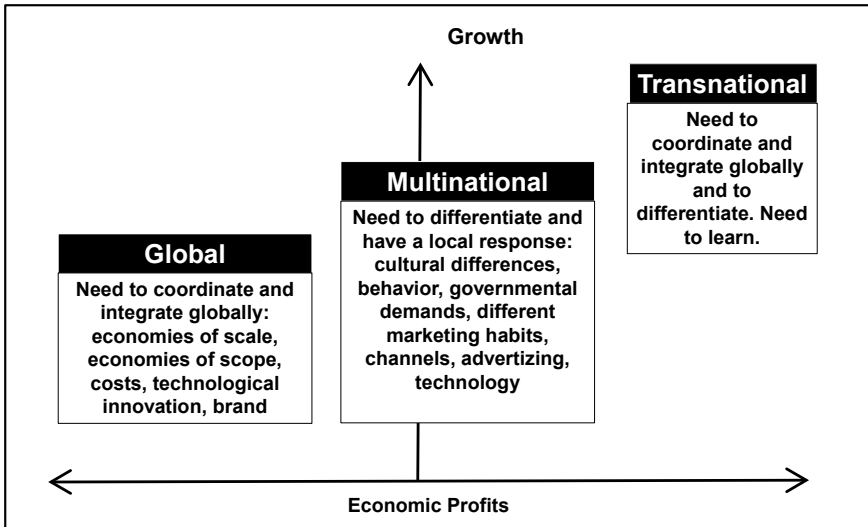


Figure 24 The EVA Model promotes critical thinking in international strategies

Figure 25 shows how the EVA Model helps to analyze international organizations:

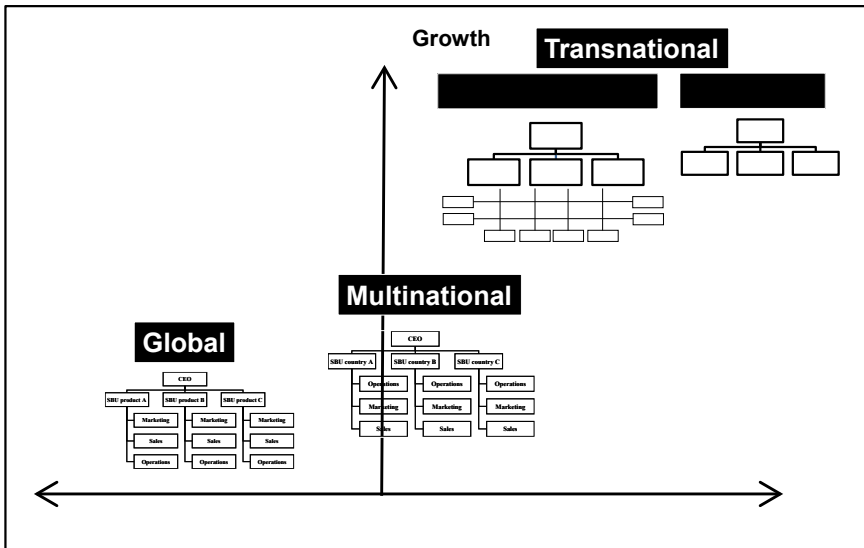


Figure 25 The EVA Model promotes critical thinking in international organizational structures

Figure 26 shows how the EVA Model helps to analyze international staffing strategies:

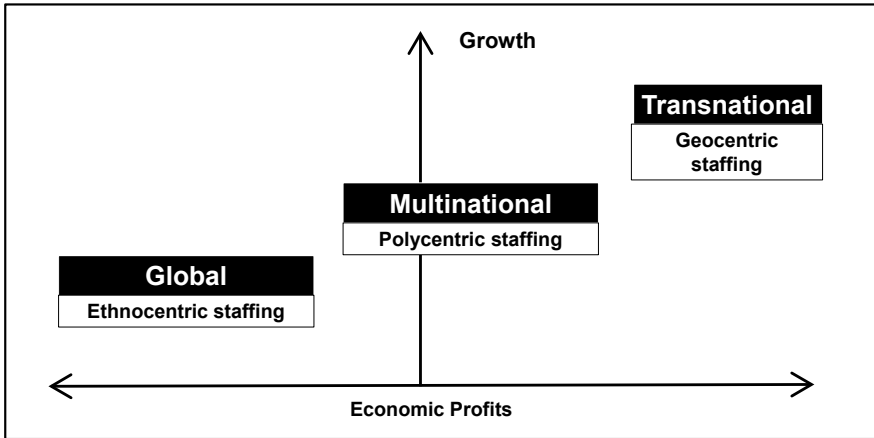


Figure 26 The EVA Model promotes critical thinking in international staffing strategies

Figures 24, 25, and 26 frame Bartlett, Ghoshal, and Beamish's transnational management model.

At the left of Figures 24, 25, and 26, global organizations need to have significant centralization and coordination of activities to achieve economies of scale, maintain global efficiency, centralize functions, standardize products, and reduce transportation and communication costs. This coordination is achieved through an overall organizational structure based on a product division structure. In this way, product-related functions such as product development, research and development, and manufacturing remain centralized in one place.

Multinational organizations operate in industries that require a strong presence in each country to adapt strategies and products to the cultural and social differences, distribution channels, business practices, and political environments. For example, in sectors such as clothing, food, and cosmetics, different countries have different tastes and, therefore, the product offering must be adapted to these realities.

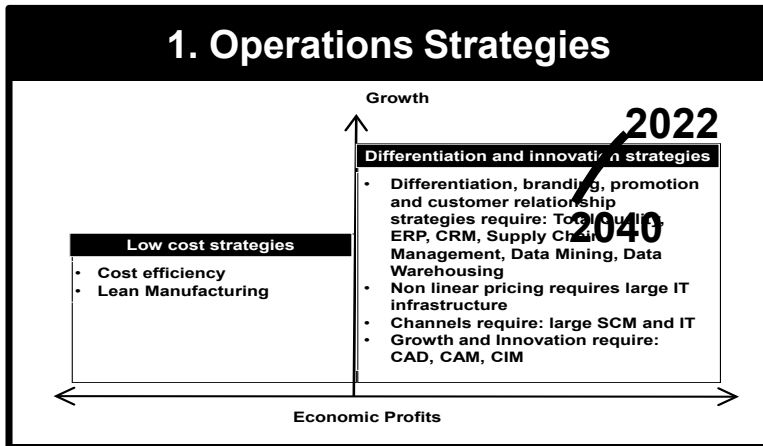
Transnational organizations are a hybrid of global and multinational organizations. They need to coordinate their global strategy and

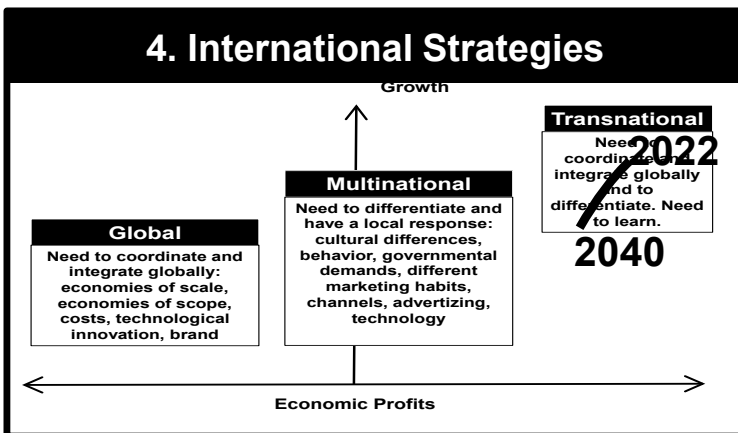
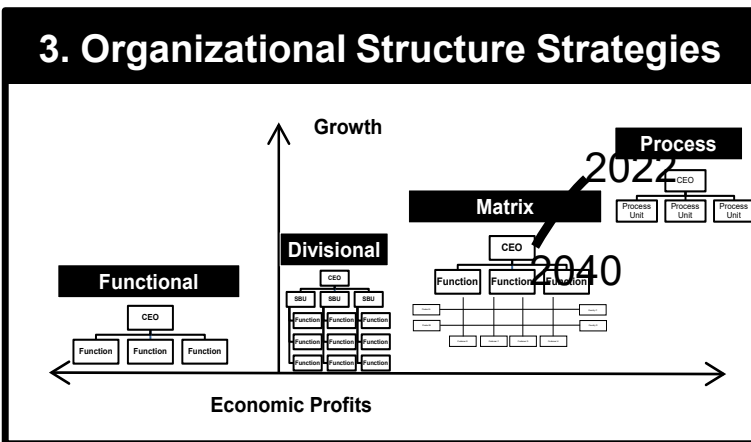
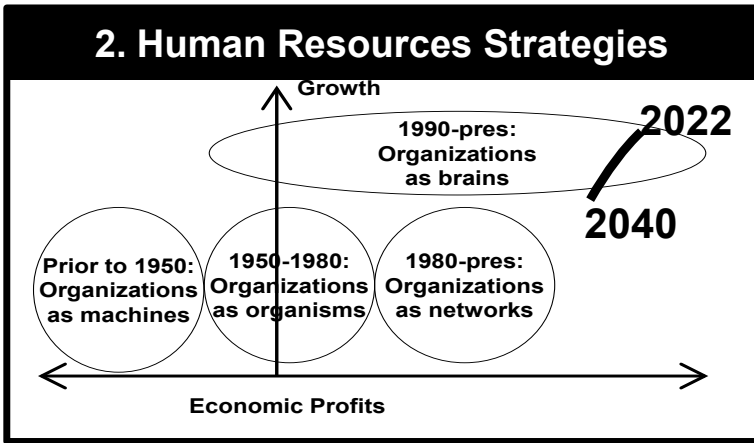
operations, and they need to adapt their strategies to the countries where they operate. The EVA Model helps to visualize global organizations as mechanistic with lower Economic Profits, multinational organizations as organic with higher Economic Profits, and transnational organizations as brains with the highest Economic Profits.

The EVA Model helps link international strategies and organizations with the environment, strategies, and results.

Illustrative example. Starbucks' functional strategies

Figure 27 presents my opinion of Starbucks' financial projections and functional strategies. According to them, Starbucks' human resources strategy needs an organic organization that is able to be sensitive to what its customers feel and a brain organization that can create knowledge.





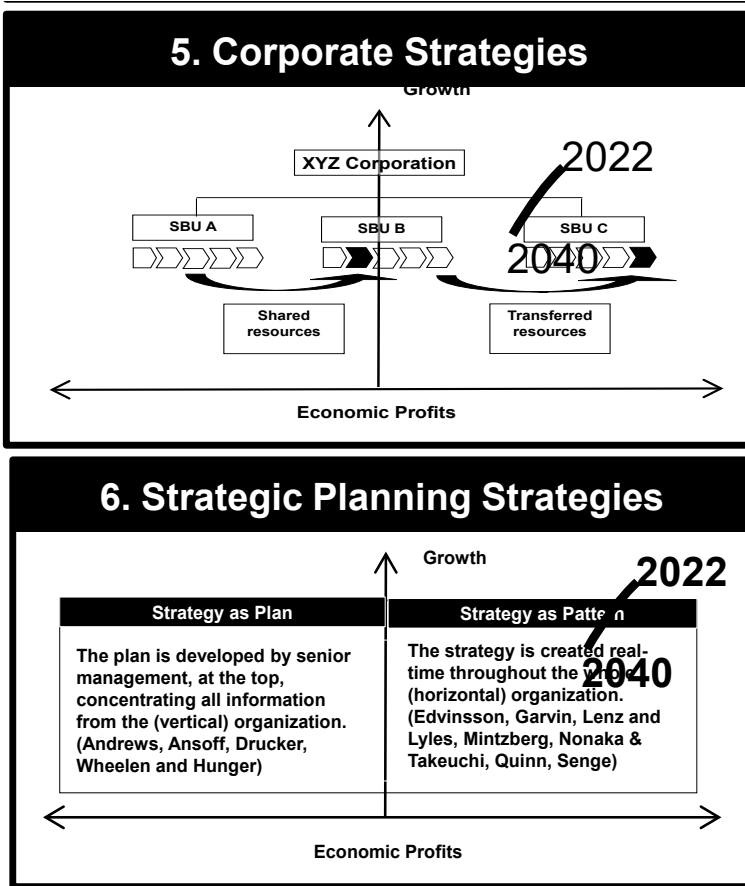


Figure 27 Starbucks functional strategies

Their strategic planning reflects the need for planning that emerges from the entire organization, leveraging the knowledge and relationships of all employees.

Their organizational strategy reflects the need to incorporate matrix and process type organizations, integrating all company areas, suppliers, and channels, empowering key processes such as customer service and innovation.

Their operations strategy reflects the need to support differentiation, branding, promotion, and customer relationship strategies that

require total quality, ERP, CRM, supply chain management, data mining, and data warehousing.

Critical thinking and other strategic management models

Several strategic management models rarely link their recommendations to the environment, all overall and functions strategies, and results.

Framing them in the EVA Model allows linking them with the environment, strategies, and results, a critical and interdisciplinary thinking source that integrates and simplifies them.

The SWOT and the PESTLE

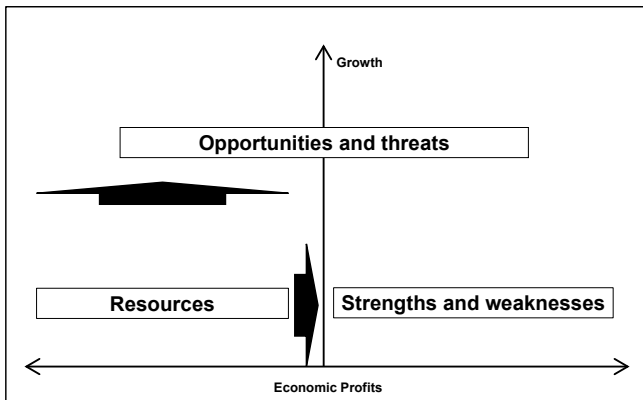


Figure 28 The EVA Model promotes critical thinking in international staffing strategies

The “Strengths and Weaknesses” of the SWOT help to analyze the organization’s competitiveness, and how strong it is compared to its competitors. Competitiveness helps organizations to be profitable based on their unique resources. The strengths and weaknesses can be analyzed by comparing the value chains of all competitors to assess how they satisfy customer expectations: their competitiveness. Such

comparisons generate positioning charts, widely used in marketing to assess how customers perceive companies' attributes, what prices they can charge, and consequently, their Economic Profits as a proxy of competitiveness. Unique resources are the backbone of value chains, the success of positioning strategies, and consequently, their Economic Profits.

The "Opportunities and Threats" help to analyze the growth potential. Opportunities or threats are based on how the company's resources help to grow and how they help to transform external factors such as the economy, politics, financial situation, technology, demand, and competition into something valuable for the company.

The PESTLE Model, P (Political), E (Economic), S (Social), T (Technological), L (Legal), and E (Environmental) is somehow part of the "Opportunities and Threats". The PESTLE helps to analyze the actors and factors arising from the external environment, which leads to identifying the business's opportunities or threats and, based on that, concluding whether it can grow.

Introducing the EVA Model helps to visualize that both the SWOT and the PESTLE rely on resources and help to define the competitive and innovation strategies. This terminates the criticism mentioned above that most practitioners write useless SWOT and PESTLE analyses that become an accumulation of information, lacking conclusions, disconnected from the strategies of an organization. The SWOT is connected to economic value creation, environments, strategies, and results.

Blue Ocean Strategies

Blue Ocean strategies consider that a company needs to innovate to stay away from competition to be consistently successful. In this way, it addresses both competitive and innovation strategies. A Blue Ocean strategy only makes sense if the organization has the resources to innovate constantly and use that innovative power as a competitive weapon.

The BCG Portfolio Matrix

The Boston Consulting Group proposed a portfolio matrix to define diversification strategies.

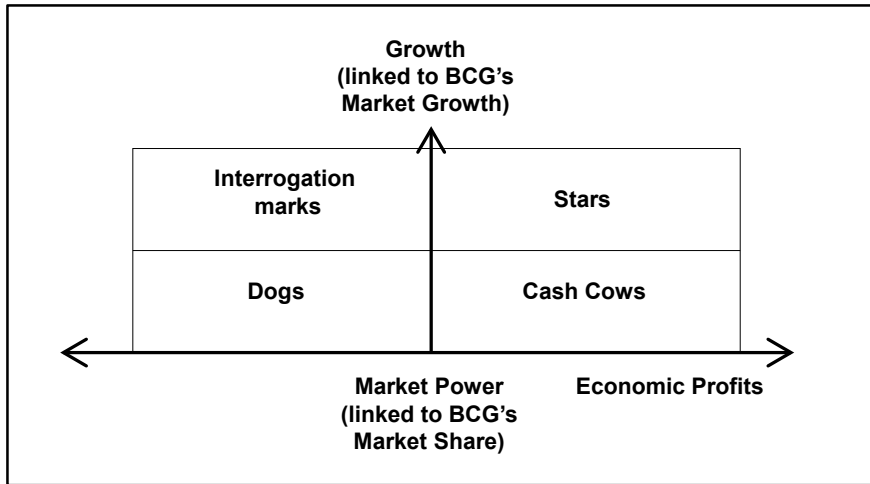


Figure 29 The EVA Model promotes critical thinking in the BCG portfolio matrix

Framing it in the EVA Model allows us to visualize other dimensions.

Looking at the horizontal dimension of the graph, BCG matrix market share is one component of market power.

Looking at the vertical dimension of the graph, market growth provides information about the market's attractiveness. However, it doesn't say much about the company's competitive position or growth, which are the fundamental factors to consider.

Relying on the EVA Model enables the BCG matrix proposed strategies for investing, holding, and divesting, which can be connected to competitive, innovation, resources, organizational and functional strategies. The EVA Model goes further and links these strategies to economic value creation.

The GE/McKinsey Portfolio Matrix

To define a diversification strategy, the GE/McKinsey portfolio matrix analyses two dimensions: the industry's attractiveness and the competitive position.

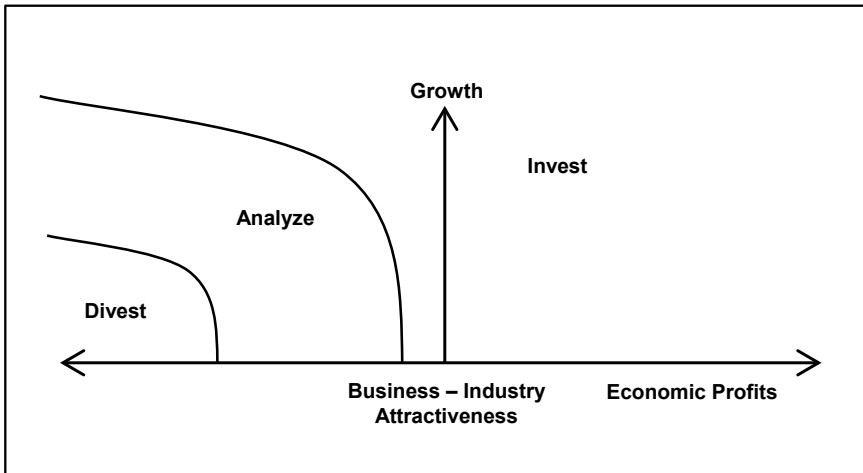


Figure 30 The EVA Model promotes critical thinking in the GE/McKinsey matrix

The factors that help define industry attractiveness (market size, market growth, profit margin, competitive intensity, technological requirements, vulnerability to inflation, energy requirements, environmental impact, and socio-political-legal environments), and the factors that help analyze the competitive position (market share, share growth, product quality, brand reputation, distribution network, promotional effectiveness, productive capacity, productive efficiency, unit costs, material supplies, R&D performance, and managerial personnel) while valid, do not adequately address the primary driver of profitability, market power, the primary driver of growth, innovation, and the central role of unique resources as drivers of competitiveness and innovation.

The EVA Model provides a framework for analyzing these factors; it goes beyond recommendations such as invest-disinvest by linking all strategies to economic value creation.

The Miles and Snow typology

Miles and Snow analyzed different strategies and organizations and standardized their findings into four types:

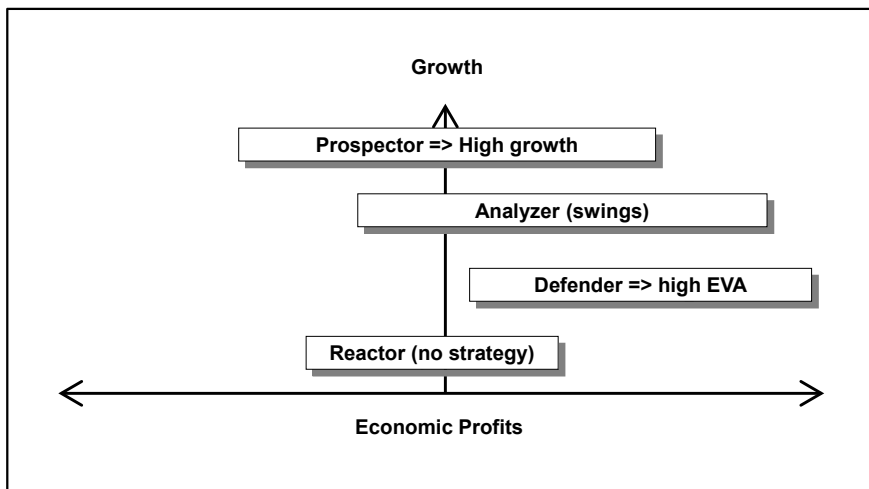


Figure 31 The EVA Model promotes critical thinking in Miles and Snow's typology

The defender creates a niche to survive the attacks; this strategy is equivalent to the monopolist strategy, which leads to high Economic Profits. The prospector is oriented toward innovation and diversification, trying to identify and exploit new products and market opportunities; this is equivalent to innovation strategies, which lead to high growth. The analyzer operates somewhere between the defender and the prospector. The reactor adjusts to the environment without any strategy.

The EVA Model allows linking the four typologies of Miles and Snow to the creation of economic value, competitive strategies, innovation strategies, organizational strategies, and functional strategies.

Critical thinking in strategic management of non-business organizations

The EVA Model allows strategic management discipline to be applied in governmental organizations, armed forces, non-profit organizations, churches, and others, facilitating critical and interdisciplinary thinking. Strategic management is generally orientated to business organizations. The use of the EVA Model helps connect the environment, strategies, and results. The MVA measures Intellectual Capital, knowledge, relationships, and processes. Intellectual Capital allows applying strategic management theories and models to non-business organizations.

Governments rely on political capital, armed forces on military capital, non-profit organizations on social and moral capital, and churches on spiritual or religious capital. The political capital of a government agency is the political support it receives from the population, its good image, and its ability to satisfy voters and taxpayers. This political capital allows each government agency to receive part of the federal budget, impacting profitability and growth. Its political capital depends on how the agency satisfies citizens better than the competition: another political party, alternative uses of taxpayer money, such as a vacation or a new car.

III. A LEADERSHIP CULTURE PROVIDES RE-SOURCES THAT PROMOTE ORGANIZATIONAL SUCCESS AND SOCIAL WELL-BEING

Introduction

The purpose of this chapter is to discuss the benefits of decision-making based on a leadership culture to promote organizational success and social well-being.

A leadership culture provides resources that enrich Intellectual Capital promote organizational success and social well-being, and recommends the transit from critical thinking to discernment, helping to solve strategic, ethical and social dilemmas.

Figure 32 presents the roadmap for this chapter.

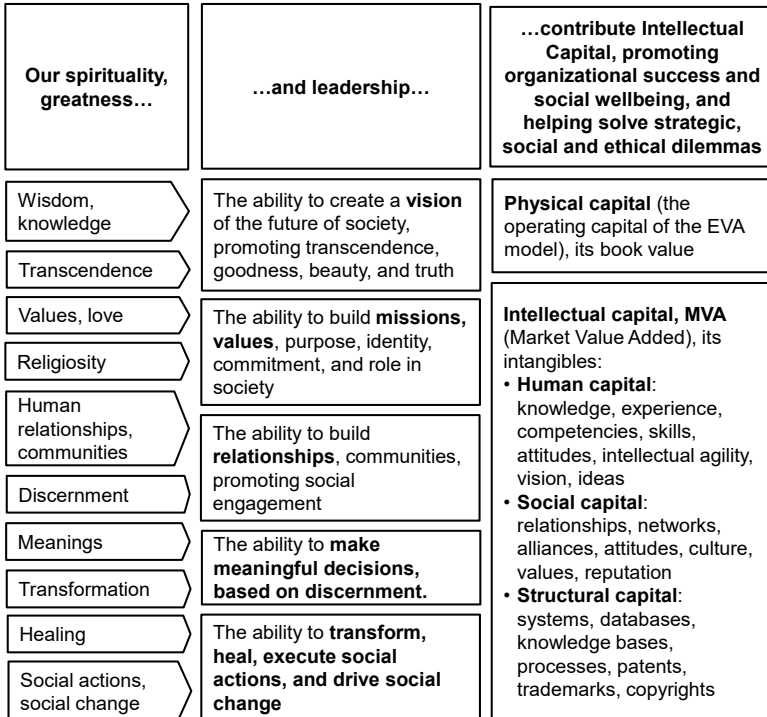


Figure 32 A leadership culture transforms decision-making

Figure 32 reflects how a leadership culture provides resources that promote Intellectual Capital, the MVA, composed of human capital, social capital, and structural capital, which promote organizational success and social well-being. Higher Intellectual Capital raises a company's market value.

Leaders provide discernment, enriching critical thinking. Discernment generates better results for the community than critical thinking.

Intellectual Capital promotes the success of an organization

As previous chapters state, the organization's market value is equal to the capital invested initially, its physical capital, plus the present value of future results, the MVA, Market Value Added: its Intellectual Capital.

Market value of the firm	Initial invested = Physical capital capital	Operating capital, book value
	Market Value Added (MVA) = Intellectual capital: human capital, social capital, structural capital.	$\frac{EP \text{ year } 1}{(1+r)} + \frac{EP \text{ year } 2}{(1+r)^2} + \dots + \frac{EP \text{ year } n}{(1+r)^n}$ <p style="text-align: center;">The future</p>

Figure 33 Market value of an organization assessed by EVA Model

Leif Edvinsson introduces Intellectual Capital, the bridge between the EVA Model and strategic management:

Market value	=	MVA (Market Value Added) Intellectual capital: <ul style="list-style-type: none"> • Human capital: knowledge, experience, vision, mission, values, ideas, skills. • Social capital: relationships, networks, alliances, reputation. • Structural capital: systems, databases, knowledge bases, culture, processes, patents, trademarks, copyrights, trade secrets.
		Initial invested capital Physical capital: <ul style="list-style-type: none"> • Operating capital of the EVA model, its book value

Figure 34 Market Value Added (MVA) measures Intellectual Capital

Intellectual Capital supports competitive strategies. Organizations are successful when they can produce value and generate satisfied customers, employees, and shareholders, with solid relationships, resulting in higher sales and margins.

Intellectual Capital supports innovation strategies, product innovation, value chain innovation, diversification, international expansion, acquisitions, and alliances.

Resources are vital to predicting whether a company's competitive and innovation strategies will be successful.

The components of Intellectual Capital, IQ, EQ, and SQ, embody a culture that provides meaning, trust, creativity, collaboration

According to Edvinsson, the benefits of these three capitals interacting with each other are far superior to Senge's learning organization since other factors participate in this interaction: rational intelligence (RQ), emotional intelligence (EQ), and spiritual intelligence (SQ).

These three pieces of intelligence generate several very beneficial mechanisms:

The traditional IQ test measures rational intelligence: the skills we use to solve logical or strategic problems. For a long time, IQ scores were considered the best measure of a person's potential for success. for success.

But in the early 1990s Daniel Goleman pointed out that success also depends on emotional intelligence - EQ - the thinking that gives us empathy, compassion and the ability to respond appropriately to pain or pleasure.

More recently, Tony Buzan, Danah Zohar and Ian Mitchell have claimed that there is another important dimension of intelligence - spiritual intelligence, or SQ (synapse quotient). In fact, they claim that spiritual intelligence is the necessary basis for IQ and EQ.

IQ is our rational, logical, linear intelligence," Zohar explains. "It is the intelligence with which we solve problems and with which we manipulate and control our environment. EQ is the intelligence with which we identify the situation we are in and behave appropriately. EQ is an adaptive intelligence. Both IQ and EQ work within a paradigm, within the box, within the given. We use them to play a "finite game.

The SQ, our need and access to deep meaning, purpose and values, is our transformative intelligence. SQ makes us ask fundamental questions, rocks the boat and moves the boundaries. SQ allows us to understand situations deeply, invent new categories of understanding, and be creative. With SQ we play an 'infinite game'.¹

As Edvinsson reflects, the dynamics between IQ, EQ, and SQ embody a culture that brings meaning, trust, creativity, and collaboration:

Where culture and the need for new perspectives come together is in the growing acceptance that innovation is a matter of sharing perspectives. Organizations and individuals must be open to sharing and work within cultures oriented toward trust and exchange.²

Edvinsson concludes that such culture generates a new style of leadership, no longer of one person, but of the whole organization, which generates a new conception of leadership:

- Empower the human side; as a volunteer organization, each employee is like an investor, a stakeholder in the organization.

¹ Edvinsson, Leif. *Corporate Longitude. What you need to know to navigate the knowledge economy.* Financial Times - Prentice Hall. 2002. p. 195.

² *Ibid.* p. 168.

- Push everyone beyond their comfort zone, take risks, and be vulnerable.
- Embrace uncertainty, ambiguity, and complexity.
- Create a valuable network of intangibles.
- Find and attract talent.
- Shape the environment.
- To be able to create a story to share.³

The controversial social impact of economic value creation and critical thinking in strategic management

The EVA metrics unveils that doing things well is not enough. Creating economic value requires doing better than others; each economic agent must have better resources than other agents promoting a competition to succeed and survive. This generates Social Darwinism, the survival of the fittest.

Economic value creation may have positive social effects: 1. Competitive strategies lead organizations to seek continuous improvement, efficiency, productivity, better quality, and lower prices. 2. Innovation strategies promote growth, wealth, new products and services, improved health, quality of life, and education. 3. Resource strategies lead organizations to develop better human, social, technological, economic, and financial resources.

However, economic value creation may have social costs: 1. Competitive strategies can foster abuses of market power, Social Darwinism. 2. Innovation strategies can generate predatory innovation and financial speculation. 3. Resource strategies can lead organizations to abuse and deplete human and natural resources.

These social costs can generate Social Darwinism, as approximately 50% of organizations destroy economic value because their

³Ibid.

profitability is below the average, so they may have difficulties surviving. This reality puts pressure on organizations that destroy economic value and those that strive to continue creating economic value: they all make decisions to ensure their success or survival, which may or may not be beneficial to society.

In addition, social costs may generate adverse social reactions: 1. Radicalization: vulnerable sectors may prefer to rely on the state, promoting populism and revolutions. 2. Abandonment of institutions: some people and organizations may resort to free riding, corruption, crime, and violence.

This is crucial in our journey because it initiates a discernment exercise, evidencing the controversial social impact of modern decision-making based on economic value creation.

A leadership culture promotes discernment to solve the controversial social effects of economic value creation and critical thinking in strategic management

A leadership culture promotes decision-making based on discernment, which is superior to critical thinking:

- Critical thinking is an intellectual exercise in which we analyze information using our reason.
- Discernment involves our spirituality, greatness and leadership: our consciousness, personal and community knowledge, our capacity to appreciate and create transcendence (goodness, beauty, truth), values, religiosity, relationships, the meaning of life, the power to transform, heal and promote social action.
- Discernment involves questioning the values of the person that provides information, the value of the sources of information, their legitimacy, reliability, and trustfulness.

- Discernment confronts our decisions to others, wise people, respected scriptures, people with moral authority, and role models.
- Discernment involves our motions of the soul, consolation versus desolation, the soul's positive and negative emotional states, fear of death, desire for health, the concern of family, images, ideas, attractions, revulsions, attitudes, aspirations, values, and relationships.
- Discernment involves recognizing our virtues and passions, shadows, compulsions, limitations, and illusions; to discover our true self, who we are, and our false self, a mask we created to live in the world, connect to others and please them; to understand how we make decisions, whether we rely on our head, heart, or guts; to discover our obstacles and how to overcome them.
- For Christians, discernment involves a spiritual exercise, discovering God as a source of life and happiness despite our limitations. Knowing and loving Jesus leads us to follow him and become part of his mission, values, and establishing his Kingdom. Joining him in his passion and death leads us to be purified, become free men, liberated from all attachments, becoming his instruments to help others on the same journey. Joining Jesus' resurrection leads us to love and serve him in concrete ways in everyone's lives in the world, introduced into the Trinitarian life, the key of all transformation, to provide life to others.
- Discernment involves our leadership: our vision of the future of society, promoting transcendence, goodness, beauty, and truth; our mission, values, purpose, identity, commitment, and role in society; our ability to develop relationships, build communities, promote social engagement; our ability to make meaningful decisions; our power to execute social actions, to drive social change, transforming the individual and society.

Discernment may help solve the social dilemmas generated by economic value creation and critical thinking.

Discernment helps to create Intellectual Capital, promoting organizational success and social well-being.

An organization with leadership can maximize economic value based on discernment.

Discernment relies on our conscience, our rational intelligence, emotional intelligence, spiritual intelligence, involves our wisdom, our capacity to connect internally and with others, our capacity for transcendence, to appreciate and create goodness, beauty, truth, our values, relationships, religiosity, capacity to transform and execute social actions.

These resources enrich the organization's Intellectual Capital, building social capital (knowledge), social capital (relationships) and structural capital (systems and processes).

It helps build human capital, as employees and other stakeholders may be willing to contribute more knowledge based on trust, shared values, shared mission and shared willingness to execute social action.

Helps build social capital by establishing more stable and stronger relationships, trust and collaboration among stakeholders.

It helps build structural capital with committed stakeholders who work harder, build efficiency and improve processes.

Discernment of many organizations can have an impact on National Intellectual Capital, which can positively impact aggregate demand and supply, involving more economic agents, and raising production and sales volumes.

1. The ability to create a vision of the future of society, promoting transcendence, goodness, beauty, and truth, empowers Intellectual Capital, MVA

The vision refers to a future ideal, which may remain an ideal for many years, probably forever. Our leadership empowers our visions, raising the bar: promoting transcendence, goodness, beauty, truth, toward perfection.

Intellectual Capital (human, social, structural capital), MVA, is empowered by:

- A vision based on our ability to create personal and community knowledge, empowering human and structural capital.
- A vision based on our ability to help people and communities transcend, appreciate and build goodness, beauty, truth, love, build a better world, empowering human and structural capital.
- A vision based on our power to promote presence, values, greatness, and love, connecting us to reality, promoting empathy, sensitivity, understanding human needs, and empowering social capital.
- A vision based on our capacity to experience the presence of God (for religious persons), learning based on our interaction with God, a vision that reflects the Trinity (for Christians), perfecting reality, a vision of a society cooperating with God's creation, an expression of his goodness, beauty, truth, love, empowering human, social and structural capital.
- A vision based on our sense of human existence, showing how personal suffering can trigger a vocation to help others overcome suffering, empowering human, social and structural capital. A person who overcame abuse can develop a personal vision to help others who suffered abuse. People with addictions who overcome them can develop a vision to help other addicts out of their torment.

- A vision based on our power of discernment, the fruit of our interaction with God (for religious persons), knowing his vision, empowering human, social and structural capital.
- A vision based on our power to transform reality, to create a better future, empowering human, social and structural capital; based on our power to transform persons and communities; to create, recreate, perfect, reform, purify, enlighten; to unite, integrate, love, cooperate, simplify, liberate; to give life, empower, energize, strengthen, discover, develop; to restore our likeness to God, likeness to the Trinity (for Christians); to develop virtues.
- A vision based on our power to produce spiritual, emotional, and physical health, empowering human capital.
- A vision based on our power to execute social actions, drive social change, empowering human, social and structural capital.

The vision, according to strategic management

Collins and Porras show that visionary companies consistently outperform their competitors in economic value creation. Visionary companies have created almost ten times more economic value than their peers since 1926. They present examples of the visions of successful companies that refer to a future ideal, which may remain an ideal for many years, probably forever.

- 3M. Solve problems that were not solved creatively.
- Cargill. Improving living standards around the world.
- Fannie Mae. Strengthen the social structure by continually democratizing home ownership.
- Hewlett Packard. Making technological contributions toward the progress and well-being of humankind.
- Israel. To provide a safe place in the land for the Jewish people.

- Lost Arrow Corp. to be a model and a tool for social change.
- Pacific Theatres. Providing an environment for people to flourish and the community to improve.
- Mary Kay. Giving women continued opportunities.
- Merck. Preserving and empowering human life.
- Nike. Experience the thrill of competing, winning and overwhelming competitors.
- Sony. Experience the joy of progressing and applying technology for the benefit of the public.
- Telecare. Helping people with mental disabilities reach their full potential.
- Wal-Mart. Give people the ability to buy the same things the rich buy.
- Walt Disney. Making people happy.⁴

A leadership culture promotes a vision of the future of society, fostering transcendence, goodness, beauty, and truth

A leadership culture promotes visions based on the best organizational knowledge, connecting and integrating all sources of knowledge, fostering creativity, discovering new ideas and new meanings, knowing human and social realities, developing relationships, and promoting leadership.

A leadership culture promotes organizational knowledge, organizational reflection, relying on multiple ways to gather information, intelligence, experience, experiential knowledge, pillars of organizational success.

Most modern management models promote organizational knowledge creation: Peter Senge's Learning Organizations, Knowledge Management, Leif Edvinsson's Intellectual Capital, Norton and

⁴ Collins, Jim; Porras, Jerry I. *Built to Last: Successful Habits of Visionary Companies*. Harper Business Essentials. 2004.

Kaplan's Balanced Scorecard, Quality Awards, Gareth Morgan's Organizations as Brains.

The modern understanding of leadership relates to promoting leaders throughout the organization; leaders communicate, motivate, empower, and transform others into leaders through visions.

Howard Gardner shows how leaders who changed the world can develop visions, stories immersed in the population. Stories are fundamental human cognitions that embody ideals, visions, speaking to reason and emotion.

Gardner shows how leaders are built by experiences: leaders did not necessarily have happy childhoods; many suffered isolation, lost their parents early, or had poor relationships with them. This forced them to develop "multiple intelligences" and a unique ability to communicate and persuade others.

Focusing on their ability to influence others, Gardner mentions how leaders must be in touch with their minds, their thoughts, their values, their strategies; leaders must have a strong relationship with the community; leaders must be able to have a story to tell, with virtues that they embody.

Gardner explains how leaders must develop mental symbols that allow them to think and categorize and become ways of communicating their stories. Such symbols must reach different people with different wiring, who may perceive some phenomena differently (scientist, economist, businessman, humanist, psychologist, poet), people with high confidence, realism, people with discernment, and people from different walks of life.

Leaders foster vision, transcendence, and the creation of goodness, beauty, and truth by turning organizations into agents of transformation, transforming themselves, transforming the community, transforming the world, creating higher realities, innovation, entrepreneurship, growth, continuous improvement, building a better society, a better world. They are critical components of Intellectual Capital, of the economic value of a company expressed in the MVA.

As Collins and Porras point out, successful organizations can transform their visions into realities for the good of the community.

Modern strategic management relies on the concept of "continuous improvement processes". Transcendence promotes continuous improvement in every individual and community.

A leadership culture promotes a vision of the future of society, impacting business ethics and corporate social responsibility

Leaders impact the cognitive dimension of ethics: prudence, wisdom, mental clarity, emotional awareness, judgment, learning capacity, richer personal and communal knowledge, enlightened by meditation, contemplation, building personal authenticity, improving consequentialism of utilitarianism, improving the criteria of idealistic normative ethics.

Leaders impact the cognitive dimension of ethics, fostering intellectual virtues such as prudence and wisdom. This generates mental clarity, emotional awareness, judgment, learning capacity, a richer personal and community knowledge, enlightened by meditation and contemplation.

José Antonio Pérez López defends the need for a rich cognition with a phenomenological vision, which promotes the creation of values: "People have the capacity to internalize everything that happens to others. This is what, strictly speaking, is called love. People are capable of loving and being loved, and it is this relationship that satisfies emotional needs. For the achievement of these satisfactions it is necessary to develop what we will call the evaluative knowledge of people."⁵ Pérez López also focuses on how transcendental realities and motivation impact: "the only type of motives that allow the processes of internalization of objectives other than one's own, is that of transcendence motives"; "transcendental motives are the achievement of

⁵ Pérez López, Jose Antonio. *Fundamentals of business management*. 1993. Ediciones Rialp. Madrid. p. 59.

learning from the people with whom the decision-maker interacts; that is, effects that transcend the personal"⁶.

Better knowledge leads to consequentialist ethics that are much richer than the empiricist ethics of pleasure and pain.

Better knowledge fosters better decision-making criteria than those provided by normative idealist ethics.

Better knowledge helps develop a healthy morality, building a personal authenticity, a connection with oneself, others, and life.

Better knowledge leads to knowing the truth, which reduces skepticism, and relativism, which enlightens and empowers ethics, fostering common ethical responses among individuals and communities.

As Michael Novak states:

No great and inspiring culture of the future can be built on the moral principle of relativism. For, at bottom, such a culture holds that nothing is better than nothing, and that all things are equally meaningless. Except for the fragments of faith (in progress, in compassion, in conscience, in hope) to which it still clings, illegitimately, such a culture teaches each of its children that life is a tale told by an idiot, that it means nothing.⁷

Amartya Sen provides similar ideas. In "Ethics and Economics"⁸ he discusses how rationality involves personal satisfaction and utility, but also the well-being of society as a whole. He describes how personal decisions are based not only on self-centered goals but also on how those goals may impact others who may affect self-centered goals and, finally, personal goals that involve the well-being of others. Rational decisions may involve the well-being of society as a whole.

⁶ Pérez López, Jose Antonio. *Human motivation*. 1992. IESE Business School. Barcelona. p. 9.

⁷ Novak, Michael. Culture in Crisis. *National Review*. 2005. <https://www.nationalreview.com/2005/04/culture-crisis-michael-novak/>

⁸ Sen, Amartya. *Ethics and Economics*. Blackwell Publishing. 1988. Oxford. Australia.

Leaders emphasize the transcendental dimension of ethics, encouraging the appreciation of goodness, beauty, and truth.

Leaders with religious values consider the "participation" of creatures in the perfections of the creator, the plan of creation, order, and perfection. Religions promote love, holiness, mercy, tenderness, humanism, and the golden rule.

Edward Freeman⁹ presents the Stakeholders Model of corporate social responsibility, a systemic approach in which organizations make decisions taking into account the impact on stakeholders, understand their needs and values, try to harmonize them, and find a balance between all stakeholders, as required by a pluralistic society.

Jeffrey S. Harrison, R. Edward Freeman, and Mônica Cavalcanti explain the benefits of the Stakeholder approach, stating that it is practical, efficient, and effective:

Stakeholders who are treated well tend to reciprocate with positive attitudes and behaviors toward the organization, such as sharing valuable information (all stakeholders), buying more products or services (customers), offering tax breaks or other incentives (communities), offering better financial terms (financiers), buying more stock (shareholders), or working hard and remaining loyal to the organization, even in difficult times (employees).¹⁰

⁹ Freeman, R. Edward. *Strategic Management: A Stakeholder Approach*. Cambridge University Press. 2010. Boston.

¹⁰ Harrison, Jeffrey S., R. Edward Freeman and Monica Cavalcanti. Stakeholder Theory as an Ethical Approach to Effective Management: applying the theory to multiple contexts. *Review of business management*. 2015. São Paulo, Brazil. p. 2.

2. The ability to build missions, values, purpose, identity, commitment, and role in society, empowers Intellectual Capital, MVA

While the vision speaks of a future ideal, the mission speaks of our present, how we walk toward that ideal, our values, and our commitment toward that ideal. The word "mission" is related to a missionary who desires to transform the world, wants to do something valuable for the world, and is willing to walk toward an ideal world. Our leadership empowers our missions, values, purpose in life, role in society, vocation, will, commitment, identity, providing valuable resources for society, energy, and motivation to impact society positively.

Intellectual Capital (human, social, structural capital), MVA, is empowered by:

- A mission oriented to realizing the vision and ideal toward goodness, beauty, truth, and love provides greatness, energy, and motivation to impact society, empowering human capital positively.
- A mission based on conscience, generating higher values described by Scheler, justice, law, aesthetics, and truth, to positively impact the community, empowering human, social and structural capital.
- A mission based on relationships produced by values, on our ability to promote empathy, compassion, collaboration with community members, and transformation of ourselves individually and collectively, empowering social capital.
- A mission that arises from our collaboration with God's mission to perfect the world, empowering human, social and structural capital.
- A mission based on our ability to promote discernment, based on our spiritual experience, knowing and loving God (for religious persons), following him, being part of his mission, his

values, to focus more directly on the community, becoming its instrument to help others, empowering human, social and structural capital.

- A mission that arises from biblical spirituality (for Judeo-Christians), knowing and loving God leads the person to follow him, to be part of his mission, his values, to focus on the community, and to establish the Kingdom of God, becoming his instrument, assuming the missionary role of the Spirit, Isaiah 6:1-3 and in Luke 4:18: "The Spirit of the LORD is upon me, because the LORD has anointed me; he has sent me to bring good news to the afflicted, to bind up the brokenhearted, to proclaim liberty to the captives, release to the prisoners. To proclaim a year of favor from the LORD and a day of vindication from our God; to comfort all who mourn; to give to those who mourn in Zion a diadem instead of ashes, to give them the oil of gladness instead of mourning, a glorious garment instead of a faint spirit", empowering human, social and structural capital.
- A mission based on our ability to share human experiences, our existence, our interpretations of reality, understanding the suffering of others, interactions, dialogue, interpretations of reality, and empowering social capital.
- A mission based on our power to process suffering can lead us to value reality, simple things, value others, understand the suffering of others and develop empathy, build love, value community, friends, and family, empowering human social and structural capital. Living according to our values can be risky: it can be painful to put altruistic values first, and postponing lower, more pleasurable values may require sacrificing pleasure and comfort.
- A mission based on our power to transform, to create a better future; to transform persons and communities; to create, recreate, perfect, reform, purify, enlighten; to unite, integrate,

love, cooperate, simplify, liberate; to give life, empower, energize, strengthen, discover, develop; for Christians, to restore our likeness to God, likeness to the Trinity; to develop virtues.

- A mission based on our power to produce spiritual, emotional, and physical health.
- A mission based on our power to execute social actions and drive social change.

The concept of mission proposed by traditional strategic management

While the vision speaks of a future ideal, the mission speaks of how we walk today toward that ideal, of what we want to provide to each member of society.

Table 2 shows Collins and Porras's examples of mission statements that can be classified according to their capacity to build Intellectual Capital

Table 2 Examples of mission statements, classified according to Edvinsson's Intellectual Capital

	All stakeholders	Shareholders	Customers	Employees	Processes	Innovation and growth
3M			Our real business is solving problems. Product quality and reliability	Tolerance for honest mistakes	Absolute integrity	Innovation
American Express			Heroic customer service	Promotion of individual initiative	Worldwide service reliability	
Hewlett-Packard		Profit and growth as a means to make all other values and objectives possible.	Affordable quality for HP customers	Respect and opportunity for HP people, including the opportunity to share in the company's success	Contribution and responsibility to the communities in which we operate	Technical contribution to the fields in which we participate
IBM			Spend a lot of time making customers happy.	Take full account of the individual employee	To take the last step to do things right; to seek superiority in everything we undertake.	
Merck	Corporate Social Responsibility	Profit, but profit from work that benefits humanity.	"We are in the business of preserving and empowering human life. All our actions must be measured by our success in achieving this goal."	Harness the "latent creative power within us". "Treat each employee with dignity, as an individual.	Honesty and integrity. Unequivocal excellence in all aspects of the company.	Innovation based on science, not on imitation
Motorola	Honesty, integrity and ethics in all aspects of business.		The company exists "to honorably serve the community by providing superior products and services at a fair price."			Continuous self-renewal. Continuous improvement in everything the company does: in ideas, in quality, in customer satisfaction.
General Electric	Interdependent balance between accountability to customers, employees, society and shareholders		Improving quality of life through technology and innovation	Individual responsibility and opportunity	Honesty and integrity	
Johnson & Johnson	"We have a hierarchy of responsibilities: customers first, employees second, society in general third and shareholders fourth."		The company exists "to alleviate pain and illness".	Individual opportunity and merit-based rewards		Decentralization = Creativity = Productivity

Source Adaptation from Collins, Jim and Jerry I. Porras. Built to Last: Successful Habits of Visionary Companies. Harper Business Essentials. 2004.

This book generalizes the concept of mission. The word "mission" is related to a missionary who desires to transform reality, do something valuable for the world, and be willing to walk toward an ideal world.

Our mission describes our purpose in life, role in society, vocation, will, commitment, identity, and valuable resources for society.

This mission gives us greatness, energy, and motivation to positively impact society.

Leaders propose a mission, values, purpose, identity, commitment, and role in society, promoting personal and organizational success, and social well-being

As stated by the prestigious Jim Collins and James Porras¹¹, the mission of a successful company requires that companies become part of a community. The success of organizations depends on how well they create meaningful long-term visions and strong goals, leading to building solid relationships with all stakeholders and the communities in which they operate: this is the core of leadership in organizations. There are many examples of successful organizations with leadership. Leaders empower Intellectual Capital, which has a positive impact on the company's economic value.

Leaders promote value-based ethics

A leadership culture impacts the axiological dimension of ethics, fostering awareness, knowledge, perceptions, and feelings.

Values lead people and organizations to change behaviors, to build virtues such as prudence, justice, fortitude, temperance, generosity,

¹¹ Collins, Jim; Porras, Jerry I. *Built to Last: Successful Habits of Visionary Companies*. Harper Business Essentials. 2004.

compassion, responsibility, honesty, loyalty, integrity, joy, feelings, empathy, tenderness, mercy, humanism, kindness, selfless love, unconditional love, transforming those feelings into social action.

As Husserl showed, phenomenology considers that when we face reality, an object, another person, a memory, and imagination, various phenomena manifest themselves through different mechanisms.

We perceive these phenomena produce various feelings: sensitive feelings, emotional feelings, and spiritual feelings. This happens because these phenomena are carriers of positive or negative values for a person.

Values produce positive attitudes and feelings, a proper appreciation of reality, living with a positive attitude, emotional health, leading to happiness, transcending by valuing the good, the beautiful, and the true, fostering personal virtues, leading to happiness and leadership.

Scheler's value ranges introduce the spiritual dimension, prioritizing the right, aesthetics, truth, transcendence, valuing the good, the true, and the beauty of reality, allowing to discern based on the ranges of values, values connected to the higher self, helps to live with a positive attitude, peace and harmony; valuing oneself build self-esteem; valuing society, social inclusion, cooperation, solidarity, working for the common good, pacification, harmonization, eliminate delinquency, and abuses of power and economic resources.

The value ranges lead to a dramatic shift in ethics, recognizing the importance of spiritual values.

The ethics of values reduces the individualism of utilitarian ethics, strengthening the social fabric and reducing marginalization, delinquency, and social Darwinism.

Values lead to a different concept from Kantian normative ethics. Values lead to knowing and loving each person and community. Values lead to happiness, the most crucial goal of every person. However, happiness is absent in Kantian ethics. Values promote happiness by helping to discover and value what is good, true, and beautiful, to have the ability to feel admiration and love for creation, help to live in the present, to live with a positive attitude, to move away from negative

thoughts about the past, or anxiety about the future by missing the beauty of the present time, peace and harmony lead to happiness.

Values compensate for the limitations of subjective idealistic ethics: a minimalist, voluntaristic, legalistic ethic that disregards happiness and allows opportunistic behavior. Idealistic ethics can lead to totalitarianism, oppression, and the elimination of personal freedoms.

According to the Josephson Institute, values lead to virtue ethics: prudence, justice, fortitude, temperance, generosity, compassion, responsibility, honesty, loyalty, integrity, joy, empathy, tenderness, mercy, humanism, kindness, love; virtues help cure addictions, leading to a healthy lifestyle, peaceful, integrity, promise-keeping, and trust, loyalty, fairness, concern for others, respect for others, law-abiding, commitment to excellence, leadership, reputation and morals, accountability.

Values foster ethics, leading people and organizations to build greatness, motivation, energy, providing meaning to personal life, emotional awareness, emotional control, fostering the will of leadership, promoting personal and social peace, the vocation to be an agent of improvement and change, promoting harmony, integration, cooperation.

Leaders promote values-based corporate social responsibility

Archie Carroll¹² describes historical examples of corporate social responsibility, such as social assistance to workers, which has existed since the 19th century in hospital clinics, canteens, profit sharing, recreational facilities, and paternalism, which includes housing built by companies for their employees.

The Trusteeship Management model of corporate social responsibility defends that managers must assume ethical obligations because

¹² Carroll, Archie. A history of corporate social responsibility. *The Oxford Handbook of Corporate social responsibility*. Oxford University Press. 2008. New York.

they operate based on public trust. The organization must be efficient, socially responsible, and ethical. Archie B. Carroll and Kareem M. Shabana¹³ explain that managers are responsible for balancing the company's profitability with the social responsibility that arises from the trust people place in the company.

Leaders promote virtue ethics

Socrates considered that the ultimate object of our life is happiness, achieved through virtues.

Plato considered that to achieve the supreme good, it is necessary to seek absolute goodness. The virtues lead to harmony, through correct behavior, based on reason.

Aristotle considered that the supreme good is happiness, the primary goal of all; all other goods are means to attain happiness. External goods do not produce happiness: happiness is produced by the vegetative life that everyone has in common with plants or the sensitive life that everyone has in common with animals, but above all, by a life based on virtues, both intellectual and moral.

The moral virtues (justice, courage, moderation) are habits of the human faculties, which seek a means, a harmony, avoiding all excesses and defects, and directing the person toward the good.

The German philosopher Joseph Pieper¹⁴ considers that virtues transform the person; virtues make the human being a good person; it is not only the Kantian duty focused on "acting well", but that of becoming good, but seeking happiness through the contemplation of goodness.

¹³ Carroll, Archie B.; Shabana, Kareem M. *The Business Case for Corporate Social Responsibility: A Review of Concepts, Research and Practice. International Journal of Management Reviews*. 2010. New York.

¹⁴ Pieper, Joseph. *Leisure, the basis of culture*. St. Augustine Press. 1998. Indiana.

Alisdair MacIntyre¹⁵ argues that the exercise of virtues requires both a particular type of human being and a social structure. Society inculcates virtues in the person by cultural transmission. Since, for Aristotle, men are social beings, we need to receive from society, from the polis, education, and support to live a life based on virtues. Mutual interaction between the polis and the individual facilitates behavior and character formation.

Ives Simon¹⁶ argues that moral virtue is about human reliability. Virtue seems to be so connected to our social being that it makes sense that civil society strives to inculcate virtue in its citizens.

3. The ability to build communities, and relationships, promote social engagement, empower Intellectual Capital, MVA

Leaders promote leaders throughout the organization, with visions and missions; a leader must communicate, motivate, empower, and transform others into leaders. Our leadership enriches our relationships and communities, promoting social engagement: the power to communicate, build emotional intelligence, reach the hearts of others, inspire, to build community, teams, and relationships.

Intellectual Capital (human, social, structural capital), MVA, is empowered by:

- Relationships based on sharing a vision and mission with the community, shared knowledge, universal truths, shared ideals, shared awareness, common perceptions, common sensitivities, communication, promoting social commitment, empowering social capital.

¹⁵ MacIntyre, Alasdair. *After Virtue*. University of Notre Dame Press. 2008. Indiana.

¹⁶ Simon, Ives. *The definition of moral virtue*. 1986. Fordham University Press. New York.

- Relationships based on sharing transcendence, the desire to become agents of creating goodness, beauty, truth, and love, promoting social cooperation, social development, and empowering social capital.
- Relationships based on sharing higher values, justice, law, aesthetics, truth, motivation to serve the community, and empowering social capital.
- Relationships based on discovering the value of the individual, of our capacity to love others, empowering social capital. For religious persons, God molds us all, we reflect his goodness, his beauty, his truth, his love.
- Relationships based on our empathy, and our ability to understand the needs of others and work collaboratively to solve them, empowering social capital.
- Relationships based on our ability to discover community value, share the desire to promote social integration, and empower social capital.
- We build our relationship with society and with God (for religious persons), acting on values that lead us to express His perfections, collaborate with God, transform reality, making reality more perfect, more beautiful, and more useful for humanity so that it may be an expression of God's goodness, beauty, truth, and love, through our daily work, as engineers, doctors, artists, as parents, as educators, as friends, empowering social capital.
- We build our relationship with society and with God (for religious persons), as the efficient cause relates to its effect; the maker relates to the thing he made, the craftsman, the manufacturer, and the things he built. Those things exist because the craftsman, the maker, created them, empowering the social capital.
- We build our relationship with society and God (for religious persons), as the formal cause relates to the form of the created

thing. The painter builds a masterpiece based on the form he created in his mind and transfers it to the canvas empowering social capital. The form we have was first created in the mind of God and transferred to us, the creatures. The universe, the stars, the earth, the animals, and we human beings, were first in the mind of God as our formal cause.

- We build our relationship with society and God (for religious persons) as the final cause of all creation. In all our activities, we have goals, and those goals seek goodness, beauty, truth, love, and empowering social capital. God is the supreme source of all goodness, beauty, truth, and love, so He is our ultimate goal, our final cause. We may believe that our goals are this or that, but we don't realize that we seek God more than that specific thing, as the ultimate goodness, beauty, truth, and love.
- We build our relationship with society and with God (for religious persons), acting on values that lead us to develop and perfect the social reality, since God is social, exercising our capacity to express the Trinity of God (for Christians), His community life, helping others to know God and to build relationships with Him and with each other, empowering social capital.
- We build our relationship with society and with God (for religious persons), acting on values that lead us to exercise our capacity to encounter other people, to know others, love them, help them, carry out social actions, to create communities, to define social roles, strengthening social capital.
- Relationships based on sharing our discernment, seeking the best for society, relationships based on our spiritual experience that lead to an encounter between the creator-creature (for religious persons) and others, empowering social capital.
- Relationships based on shared meanings, shared sensitivity, shared suffering, the need to connect with others in times of

pain, supporting those who suffer, and empowering social capital. Suffering without community support can be devastating and overwhelming; people can fall into despair and depression. Relationships with others can generate faith, hope, and understanding.

- Relationships by working in teams with people capable of transforming reality, healing communities, promoting social action, driving social change, and empowering social capital.
- Relationships developed by working with communities that need that power of transformation, empowering social capital.

The ability to develop relationships, building communities, fostering social engagement, promote personal and organizational success, and social well-being

Successful modern organizations seek to create strong connections with society, developing processes that ensure that the organization improves reality.

Modern strategic management is based on relationships: Edith Stein's empathy, Kotter's change management that relies on motivated teams, Katzenbach's team leadership, Morgan's organizations as organisms and networks, and Reeve's strategic alliances.

The notion of "empathy" introduced by the phenomenologist Edith Stein is part of modern management science, organizational behavioral science, and organizational theories.

John Kotter¹⁷ explains how managing change requires the role of teams, highlighting the importance of connecting teams with the environment, with people, building relationships, proposing a vision and strategies, communicating that vision, generating success, and building a culture.

¹⁷ Kotter, John. *Leading change*. Harvard Business Review Press. 2012.

Jon Katzenbach¹⁸ discusses what makes a team successful: rich knowledge, accountability, and commitment.

In his famous book *Images of Organization*, Gareth Morgan¹⁹ explains how the old conception of organizations as machines, mechanistic, evolved several decades ago to organizations as organisms, sensitive to the environment and able to adapt, organizations as networks capable of interacting with each other and working in coordination, organizations as brains capable of creating ideas.

According to Morgan, organizations as machines emerged in the early 20th century because organizations were extensions of manufacturing. Standardization of work, routines, and knowledge created, at the top, vertical communications, which were the typical patterns of organization. Organizations as organisms responded to the humanization of management during the 1950s and then to the marketing orientation of the 1960s. Knowledge creation, improved communications, motivation, and training were the recommendations. Organizations as brains have become popular in the last decades. Once computers could do all the routine jobs, the organization could create new knowledge, technologies, and products.

Torger Reve²⁰ explains the advantages of alliances with suppliers, customers, and even competitors, highlighting the economic results of alliances. According to Reve, alliances generate economies of scale, economies of scope, and economies of integration.

Daniel Goleman shows how knowledge, awareness, understanding, and connecting with others help build leadership. He shows how emotional intelligence competencies, such as self-awareness, social awareness, empathy, and the ability to unite intelligence and emotions,

¹⁸ Katzenbach, Jon and Douglas K. Smith. *The Wisdom of Teams: Creating the High-Performance Organization*. Harvard Business Review Press; Reprint edition. 2015. Boston.

¹⁹ Morgan, Gareth. *Images of Organizations*. SAGE Publications, Inc. 2006. California.

²⁰ Torger Reve. *The company as a nexus of treaties*. Sage Publications. Editors: Masahiko Aoki, Bi Gustafsson and Oliver E. Williamson. 1990. pp.133-161.

are critical components of leadership, which promote a "positive impact on personal and organizational excellence".

Modern organizations tend to promote an institutionalist view: companies must be good citizens to be successful and promote personal and community values to be accepted and rewarded by all stakeholders.

The most advanced theories of continuous improvement processes in organizations are systemic since they consider the organization as part of a system: The Balanced Scorecard developed by Norton and Kaplan, the Baldrige National Quality Award, and Deming's Total Quality Management promote a systemic vision of the organization's continuous improvement processes, in which the economic value increases along with the satisfaction of the interested parties.

These modern approaches to strategic management are relational, community values-based leadership, based on organizational knowledge, a strong relationship with customers and employees, with processes oriented to produce results for the community.

Leaders foster Intellectual Capital (MVA), generating organizational knowledge and relationships with stakeholders; promoting a vision, mission, values, objectives, and strategies that generate positive results for society; promoting trust, which is vital to creating organizational knowledge and relationships pillars of Intellectual Capital.

Leaders impact the relational dimension of ethics, promoting an ethical community, and promoting reciprocity. Scheler's value ranges prioritize justice, social inclusion, cooperation, solidarity, working for the common good, pacification, harmonization, the end of delinquency, and abuses of power and economic resources.

Leaders promote stakeholder relationships, inter-organizational alliances, emotional intelligence, socially sensitive communities, communication, leaders everywhere, and empowering Intellectual Capital.

The ability to develop relationships, building communities, foster social engagement, impacting ethics

A leadership culture positively impacts ethics, promoting relationships, emotional intelligence, the power to build communities with social sensitivity, and fostering virtue ethics, social ethics, and business ethics.

Social ethics is based on community values, relational values, and affection, which help to develop community-oriented virtues and behaviors, such as generosity, kindness, compassion, tenderness, reconciliation, willingness to help others, give them freedom, being open to receive their affection, to care for the weakest, the sick, the vulnerable, even to choose careers to dedicate a whole life to help the community, the vulnerable.

The ability to develop relationships, building communities, foster social engagement, impacting corporate social responsibility

The leadership of each individual and community maximizes corporate social responsibility: the Stakeholder model contributes to the harmony of all stakeholders, Corporate Citizenship to the identity of the organization as part of the community, Employee Well-being and Paternalism reinforce employee loyalty to the organization, Corporate Social Performance relies on mechanisms that integrate the entire organization, its resources, and processes behind social issues.

The Corporate Social Responsiveness Model focuses on how organizations actively engage and interact with communities to improve the quality of life and the environment. Organizations participate in initiatives to improve the environment, reduce waste, reduce their impact on global warming, and other similar initiatives. Many employees participate in volunteer activities to support initiatives that make a difference in their communities.

Patrick Murphy²¹ describes the era in which specific corporate social responsibility issues are addressed: urban decay, racial discrimination, pollution problems, minority hiring and training, ecology, contributions to education and the arts, urban renewal, and civil rights.

As described by Craig Smith, Daniel Read, and Sofía López Rodríguez²², consumer-based corporate social responsibility has beneficial effects on customers and the image and perception of companies.

In his opinion, consumers make decisions based on minimal information, which they extrapolate by relying on the halo effect.

Philanthropy promotes social change. According to Zach Lazzari:

Philanthropy is most often seen in the form of financial contributions, but it can also include time and resources. The concept behind philanthropy involves making an effort to drive social change.

Companies can also participate directly in philanthropy by working closely with a cause or, in some cases, by bringing the efforts in-house. Some companies have entire departments dedicated to managing their charitable giving and philanthropic programs.²³

Peter Baines presents similar ideas about how philanthropy focuses on social change:

Philanthropy is often defined as the use of wealth to bring about social change. A "philanthropist" is a bit like a venture capitalist in the nonprofit sector; they make a decision to invest a portion of their wealth to bring about social change in something they

²¹ Murphy, Patrick E. Corporate social responsiveness: an evolution. *University of Michigan business review*. 1978. Ann Arbor. Michigan. pp. 19-25.

²² Smith, Craig, et. al. *Consumer perceptions of Corporate social responsibility*. INSEAD. 2010.

²³ Lazzari, Zach. *The Difference Between Corporate Philanthropy & Corporate Social Responsibility*. <https://smallbusiness.chron.com/difference-between-corporate-philanthropy-corporate-social-responsibility-65129.html>

believe in. They may invest their time and expertise, but more often than not the support is financial.

Philanthropists' desire to be involved beyond that can vary, but they are often content to support from a safe distance. While they are likely to try to find out what impact their funds have made for the charity, they don't tend to get involved beyond that.²⁴

Hency Thacker reinforces the same orientation toward social change:

Philanthropy is defined as promoting and attempting to bring about social change by making generous financial contributions. A philanthropist is someone who chooses to invest a portion of their wealth, time or expertise in a social sector for a cause they believe in.

Philanthropists' involvement in a cause can vary. However, most of the time, philanthropists are happy to support a cause from a distance. They are likely to follow up and try to know the impact created by their contribution. However, they would not want to get involved beyond that.²⁵

The Bible promotes relationships for the good of the community

Waaïjman²⁶ describes how Judaism and Christianity promote relationships. The Old Testament promotes doing good to the community through the teachings of the prophets and the Ten Commandments. In the New Testament, Jesus presents the Beatitudes, his mission to set the captives free, give sight to the blind, and liberate the oppressed.

²⁴ Baines, Peter. *Philanthropy vs. corporate social responsibility*. <https://www.theceomagazine.com/business/philanthropy/philanthropy-vs-corporate-social-responsibility/>.

²⁵ Thacker, Hency. Difference between CSR and Philanthropy. *The CSR Journal*. <https://thecsrjournal.in/difference-between-csr-and-philanthropy/>.

²⁶ Waaïjman, Kees. *Espiritualidad. Formas, fundamentos y métodos*. Ediciones Sígueme. 2011. Salamanca. Spain

The Scriptures lead people to holiness, health, the fullness of life, and transcendence; they purify the person, transforming them into a spiritual model. The Scriptures lead a person to perfection; spirituality is a process that leads a person to the final state of perfection, a place of fullness; spirituality has an active side, seeking and working, and a passive side, complete surrender in love.

According to Waaijman, the Scriptures educate people in mercy, tenderness, humanism, kindness, selfless love, unconditional love, in compassion, our happiness is not complete if we do not incorporate the happiness of others, and this is central to all religious traditions, God's mercy fills our attitudes, behaviors, thoughts with mercy, and transforms those feelings into works of mercy. Scripture gives people fear of God, which leads to new behaviors, moves people away from wrongdoing, causes people to repent, repent, apologize, leads people to paths of virtue and righteousness, leads to love of God and others, strengthens people's wisdom.

According to Waaijman, in the early Church, the centrality of God led to assistance to the poor as the core of salvation, the goal of monastic life: to focus on the search for God and not on the pursuit of material needs. St. Augustine introduced his Neoplatonic vision of the interior life, of personal history, which relies on personal conscience to know the intuitions of God: through conscience, the person has access to the natural moral law, listening to listening to the inner movements, the affections. Contact with the word of God in prayer, meditation, and contemplation strengthens the contact with Jesus and the desire to imitate and follow him. In the medieval period, God's plan for creation became central, leading to the pursuit of the common good. The Protestant Reformation led to work as part of God's teaching and concern for the poor. In modernity, Christians propose that justice comes from a whole social system based on universal love, human dignity, society's goals, and personal character development.

Daniel Finn²⁷, in his excellent book “Christian economic ethics”, presents a history of how social ethics evolved (his book refers to economic ethics):

- The Old Testament presents Israelites in a relationship with God, accepting his ethical and religious commands freely; the believers are part of a community, and God cares for them; the material world is a gift to be valued; God sides with the underprivileged, and the believer must too, as part of the Covenant with God.
- The New Testament states Jesus' mission “to release captives, give sight to the blind, and free the oppressed”, which can be understood in material, emotional and spiritual dimensions. Jesus states a mission for humanity, to help those in need.
- The Early Church deepened these guidelines: the centrality of God, non-attachment, and assistance to the poor as the core of salvation; ownership was not condemned or rejected, but it was central for Christianity that surplus must be shared with those in need.
- The Monastic life's goal is to deepen a Christian lifestyle, focusing more on the search for God and less on material needs; the community works for material and spiritual goods, “work and pray”, the two parts of our life.
- The Medieval period centers on the realist views of Thomas Aquinas, on God's plan for creation that leads to the Natural Law Ethics as part of God's plan, and such Natural Law is “built-in into us as natural inclination”, that we naturally seek the good. Aquinas defends private property for the benefits it produces. The effort to produce and take care of them, and their administration, is better ensured by private property.

²⁷ Finn, Daniel K. *Christian economic ethics. History and implications*. Fortress Press. 2013. Minneapolis.

Aquinas's definition of just price as the natural price is inadequate for modernity in which prices have become too complicated and fast-changing; he defends that a higher price can be justified not for the consumer needs (the demand), but solely for the producers' requirement to produce the good (the supply's costs). His definition of "usury" as unacceptable eliminates charging an interest rate for lending.

- Protestant Reformation, as initiated by Luther, Calvin, and Wesley, continued the same ideals: work as part of God's teaching, and concern for the poor. However, Calvin introduced a significant change in the use of money: charging interest on loans is acceptable based on the use of the borrower of such funds to produce economic wealth, which should be shared with the lender.²⁸

Eastern religions promote relationships for the good of the community

Taoist meditation encourages mindfulness, valuing oneself and others, healing the soul, and building community.

Taoism promotes relationality:

It is through filial piety (reverence and loving care for our parents, teachers, elders), sibling harmony (living in peace as brothers and sisters, respecting others), dedication (loyalty, faithfulness, commitment), trustworthiness (sincerity, honesty, keeping promises), propriety (courtesy, politeness, decorum, manners), sacrifice (courage to do what is right, purity of heart and purpose, selflessness), honor (integrity, incorruptibility, taking only what is deserved, having earned it), and a sense of shame (awareness,

²⁸ Ibid.

knowledge of shameful action and avoiding it) that make us fully human.²⁹

Cultivate the Tao within yourself; and your virtue will be perfected. Cultivate the Tao in your house, and your virtue will abound. Cultivate it in the neighborhood, and virtue will be lasting. Cultivate it in the nation, and virtue will be abundant. Cultivate it in the whole world, and your virtue will be universal.³⁰

Confucianism believes in a social order based on relationships (between family members and members of society) and reciprocity (a kind father creates a loyal son; a good boss creates a loyal employee).

According to Jing Lin and Yingji Wang³¹:

In Confucius' mind, peace is achieved through harmony, and harmony is maintained through virtues, and virtues can be cultivated in every human being through education. The key virtues advocated by Confucius are: ren, or loving-kindness; yi, or selfless giving; li, or civility or virtue actions; zhi, or acquiring wisdom; and xin, the building of sincerity, trust, and faith. It also advocates xiao, piety; gong, respect; qian, humility; kuan, a form of comprehensive forgiveness; and yong, courage.³²

Confucius does not treat virtues as mere moral choices in themselves, but as the organizing principles of human life and society, emulating the virtues of Heaven and Earth. Virtues are the fundamental mechanism for humans to establish themselves and for any government to remain strong and lasting. It is the way to

²⁹ *The eight virtues*. Fung Loy Kok Institute of Taoism. http://www.taoist.org/uploads/2013/06/8Virtues_English.pdf

³⁰ *Tao Te Ching*. 54. http://www.bbc.co.uk/religion/religions/taoism/taoethics/ethics_1.shtml.

³¹ Jing Lin, Yingji Wang. *Confucius' teaching on virtues and its implication for world peace and peace education*. https://www.academia.edu/7195741/Confucius_Teaching_of_Virtues_and_Peace_Education.

³² *Ibid.* p. 1.

build a harmonious society. Ultimately, the ideal world is one of the Common Good, where everyone is treated as members of the same family, talented people make the most of their potential, the young and old are cared for, and the disabled are treated with compassion and love. It is a peaceful and loving world.³³

Buddhism is considered the spiritual tradition that has the most advanced meditation practice. It states that meditation leads to discovering the individual's true self and the value of each person. Understanding this helps a person perceive other people or the world and discover the value of others and the community; this is the origin of love, compassion, wisdom, justice, moderation, integrity, and all other virtues. This is the beginning of a community and the backbone of everyone's happiness. Meditation leads to "non-attachment", an essential part of personal freedom, the backbone of all virtues such as wisdom, moderation, and justice.

The Eight Noble Buddhist Truths show the centrality of meditation and non-attachment as the path to a happy and rich life: 1. Right view, a balanced view of life, 2. Right intention, 3. Right speech, 4. Right morality to build a reasonable lifestyle for the entire community, 5. Right livelihood with mindfulness and compassion, 6. Right effort not directed by passions, 7. Right mindfulness with a vision of life that integrates the whole world and the community, 8.

The Eight Noble Truths lead to the virtues, the six paramitas³⁴:

- (1) sbyin-pa (dana, "generosity"), (2) tshul-khrims (shila, "ethics"),
- (3) bzod-pa (kshanti, "tolerance, acceptance, patience, forgiveness"), (4) brtsong-'grus (virya, "cheerful effort, diligence,

³³ Ibid. pp. 20-21.

³⁴ His Eminence Khenzin Tai Situ Rinpoche. *The Six Paramitas*. <http://www.rinpoche.com/teachings/paramitas.htm>

zeal"), (5) bsam-gtan (dyana, "meditative concentration"), and (6) shes-rab (prajna, "wisdom-discriminating awareness, insight").³⁵

4. The ability to make meaningful decisions based on discernment empowers Intellectual Capital, MVA

Modern decision-making refers to how an organization can define objectives, strategies, necessary resources, and expected results to transform the ideal into reality.

Modern strategic management is based on critical thinking to make decisions, on the ability to analyze the system, the reality, the strategies, the results, and establishing the rational connection between them to ensure the organization's success. Our leadership empowers our ability to find meaning, make meaningful decisions, and discern.

Intellectual Capital (human, social, structural capital), MVA, is empowered by:

- Objectives and strategies based on all possible knowledge, personal and community, in all possible human dimensions, universal truths, rationality, empowering human, social and structural capital.
- Objectives and strategies promote the creation of organizational knowledge, competencies, skills, research, creativity, innovation, education, and empowering human, social and structural capital.
- Objectives and strategies oriented toward transcendence, perfection, goodness, beauty, truth, love, becoming creators, improving reality, being beneficial to humanity, innovators, entrepreneurs, to build a better society, a better world, empowering human, social and structural capital.

³⁵ Ibid.

- Objectives and strategies based on presence, values, greatness, relationships, and love.
- Objectives and strategies based on promoting the creation of personal and community knowledge, personal awareness, and intersubjectivity.
- Objectives and strategies based on higher values: justice, law, aesthetics, truth, social inclusion, cooperation, solidarity, the common good, pacification, harmonization, empowering human, social and structural capital.
- Objectives and strategies based on human values lead to connecting with others, understanding their needs, and foreseeing solutions with social sensitivity; which lead to developing empathy and motivation to serve the community; which lead to discovering the value of the individual, the dignity of the person, the value of the community, the value of creation; which lead to promote personal and social integration, empowering human, social and structural capital.
- Objectives and strategies based on shared values and norms of social conduct, personal relationships, trust, social cooperation with mutual benefit, integration, altruism, positive personal interaction, goodwill, "civic" responsibility, empowering human, social and structural capital.
- Objectives and strategies that promote ethical values, reducing transaction costs, the agency problem, information asymmetry, lower information cost, lower cost of law enforcement, lower cost of bribery and corruption, lower cost of transformation, making the investment profitable, empowering human, social, and structural capital.
- Objectives and strategies that promote cultural values of collaboration and trust, fostering civic virtue, reciprocity, altruism, social norms, solidarity, community, and empowering human, social and structural capital.

- Objectives and strategies that promote cultural values of hard work, innovation, entrepreneurship, savings, personal effort, morality, and parasitism reduction empower human, social and structural capital.
- Objectives and strategies that promote cultural values of civic and political freedoms, internationality, commercial intensity, business opportunities, welcoming investors, and empowering human, social and structural capital.
- Objectives and strategies that promote cultural values of social equality, which influence attitudes to work on well-being, health care, education, social entrepreneurship, social innovation, social change, and empowering human, social and structural capital.
- Objectives and strategies based on the presence of God (for religious persons), on the relationship with God, generating a learning process especially rich in moments of challenge, in which personal discernment is put to the test, in which interaction with God becomes crucial, empowering human, social and structural capital.
- Objectives and strategies based on the exercise of our spirituality, reviewing our life, discovering God as a source of life and happiness (for religious persons), producing a personal transformation driven by the love of God, and empowering human, social and structural capital.
- Objectives and strategies based on our journey, an encounter between the creator-creature (for religious persons), a growing affection, a dialogue in which God enriches the wisdom of each one, heals, energizes, each one finds what God wants from each one, mission, values, purpose, toward a better world, empowering human, social and structural capital.
- Objectives and strategies based on a personal relationship with God (for religious persons), sharing his mission to establish the Kingdom of God, becoming his instruments to help others,

collaborating with God: God becomes the guide, leader, and companion, in a dialogue in which God enriches the wisdom of all, heals, energizes, all find what God wants of all, mission, values, purpose, path, to guide the future steps of all, in practical spirituality, in the practice of mercy, empowering human, social and structural capital.

- Objectives and strategies considering the value of relationships, social networks, empathy, understanding the suffering of others, empowering human and social capital; valuing the community, because without the support of the community, without the support of a higher being, the reality can become devastating, overwhelming, people can fall into despair and depression.
- Objectives and strategies fostering relationships, social commitment, creation of teams, working groups, communities of transformation, units of transformation processes with different people willing to transform, communities that need that power of transformation, empowering human, social and structural capital.
- Objectives and strategies by building relationships with people oriented to social action, building teams, working groups, and communities active in social enterprises.
- Objectives and strategies based on the motions of the soul, consolation, and desolation. Suffering can be part of discernment, as it can generate the sensitivity to make wise decisions, empowering human, social and structural capital. A right decision can lead to desolation, such as the anxiety of giving up money to help others, and the person must be willing to accept it. A wrong decision can lead to consolation, such as getting into drugs to have a good time, and a person must be willing to accept not getting into drugs.
- Objectives and strategies based on the meaning of human existence, the past, the present, and the future, involving the

whole society, empowering human, social and structural capital.

- Objectives and strategies promoting institutions, rules of the game, organizations, good social behaviors, habits, customs, conventions, social structures, social actors, associations, emotional support, norms that reduce transaction costs, the agency problem, information asymmetry, lower information cost, lower law enforcement cost, eliminating bribery and corruption, lower transformation cost, improving return on investment, empowering human, social and structural capital.
- Objectives and strategies promoting institutions, so agents act as expected; leadership is required as institutions do not necessarily cover all the necessary aspects to guarantee the success of people and communities, empowering human, social and structural capital.
- Objectives and strategies influencing attitudes toward the rule of law, democratic accountability; influencing the belief in the importance of personal effort, morale, and the effectiveness of institutions, empowering human, social and structural capital.
- Objectives and strategies by reducing opportunism, free-riding, based on the limitations of institutions, reducing the adverse reaction of the population, who may prefer to abandon institutions altogether when they do not produce the expected results, empowering human, social and structural capital.
- Objectives and strategies promoting virtues and behaviors oriented to the community, such as generosity, kindness, compassion, tenderness, reconciliation, willingness to help others, giving them freedom, being open to receive their affection, to care for the weakest, the sick, the vulnerable, even to choose careers to dedicate a whole life to help the community, the most vulnerable, empowering human, social and structural capital.
- Objectives and strategies based on the meaning of our lives, considering that suffering can be part of discernment, as it can

generate the sensitivity to make decisions with a sense of community, to create a better reality that helps to overcome suffering, to help others to deal with the meanings of their lives and reduce their suffering, empowering human, social and structural capital.

- Objectives and strategies living suffering as part of transcendence, as part of a journey toward perfection, moving to better realities, to higher levels, accepting it for a higher purpose, as part of a vision, vision, values, relationships, decisions, and social action, which can be painful: creating something good, beautiful, true may require extraordinary sacrifices, empowering human, social and structural capital. Greatness and suffering can walk together. Growing up and maturing can be painful; giving up the current reality to reach a better one that may not be reached immediately implies a loss, taking a risk.
- Objectives and strategies living suffering as part of the development of superior resources, as a path toward goodness, beauty, truth, love, suffering as part of the battle for transcendence, for overcoming oneself, a battle for personal and community growth, a battle against evil, against death, empowering human, social and structural capital.
- Objectives and strategies considering our power to transform people and communities; our power to create, recreate, perfect, reform, purify, enlighten; our power to unite, integrate, love, cooperate, simplify, liberate; our power to give life, empower, energize, strengthen, discover, develop; our power to produce spiritual, emotional and physical health; our power to restore our likeness to God, likeness to the Trinity (for Christians); our power to develop virtues, empowering human, social and structural capital.
- Objectives and strategies considering our power to carry out social actions, drive social change, and empower human, social and structural capital.

- Objectives and strategies promoting social actions that foster a vision to build an active society, in which members have the resources and leadership in caring for the community; the power to perform social actions fosters higher-level values; the power to transform those values into realities, to care for each member of the community; the power to perform social actions fosters discernment, based on movements of the soul impacted by the capacity to do good to society, empowering human, social and structural capital.
- Objectives and strategies based on the power to perform social actions as a result of practical spirituality, the practice of mercy, based on the dignity of every human being, and the value of creation, participating in the life of God, in his mission (for Judeo-Christians): Isaiah 6:1-3 and Luke 4:18, empowering human, social and structural capital.

Discernment in decision-making

Critical thinking is part of economic value creation, as the EVA Model shows: organizations need to outperform the competition and have higher sales and better capital.

Critical thinking is an intellectual exercise that relies on systems analysis, involving analysis of the environment, strategies, and results.

Discernment is superior to critical thinking because it involves resources beyond the intellect: personal and community knowledge, transcendence, values, relationships, and the meaning of life.

The ability to make decisions based on discernment promotes personal and organizational success and social well-being

A leadership culture promotes discernment based on knowledge created and shared among stakeholders, promoting socially sensitive decision-making, valuing each member of society, seeking the best for

all stakeholders, and maximizing Intellectual Capital, knowledge, and relationships.

Leaders lead all stakeholders (not just companies) to develop maximum capital for society, as investors, customers, citizens, and government agents: maximizing the common good is everyone's responsibility.

The meaning of our lives, of work, of organizations, as part of discernment

It is rare to find the topic of the meaning of our existence in strategic management. Probably the best summary is presented by Matt Perman³⁶, based on the famous book "In Search of Excellence: Lessons from America's Best-Run Companies" by Thomas J. Peters and Robert H. Waterman:

As Anthony Athos says, "good managers give meaning to people as well as money.

Be that as it may, we find it compelling that so many thinkers from so many fields agree on the pervasive need of human beings to find meaning and transcend worldly things.³⁷

Perman states that "people want to be treated as whole people", and supports that view with Stephen Covey:

People live up to what is expected of them. They want to contribute to the achievement of worthwhile goals. They want to be part of a mission and an enterprise that transcends their individual tasks. They don't want to work in a job that has little meaning, even

³⁶ Perman, Matt. *Against Overprofessionalism in Management. Or, Managing for the Human Side*. 26 May 2010. Retrieved from <https://www.whatsbest-next.com/2010/05/against-over-professionalism-in-management/>

³⁷ Peters, Thomas J.; Waterman Jr. Robert H. *In Search of Excellence: Lessons from America's Best-Run Companies*. Harper Business. Feb, 2006.

though it may exploit their mental capacities. They want purpose and principles that elevate them, ennoble them, inspire them, empower them, and encourage them to do their best. [We work with the whole person. People are not just assets, they are not just economic, social and psychological beings. They are also spiritual beings; they want to have meaning, a sense of doing something important. People don't want to work for a cause with little meaning, even if it makes the most of their mental capacities. There have to be purposes that elevate them, ennoble them and take them to the highest part of their being.³⁸

The transformation driven by leaders can be painful, risky, generate suffering, and have a cost, a sacrifice to move to better realities, to higher levels. To grow and mature can be painful; renouncing the current reality to reach a better one that may not be reached immediately implies a loss, to assume risk.

One meaning of suffering is the result of suffering for a higher purpose, as part of a mission, as a journey toward life, discovering the inner life, suffering as part of the battle for transcendence, the battle against evil.

But suffering can be a way of developing the resources needed to overcome suffering: the positive effects of suffering can be wisdom, transformation, the presence of God (for religious persons), and the desert as a place to build authenticity.

The ability to make decisions based on discernment impacts corporate social responsibility

Several models of corporate social responsibility present similar approaches that involve discernment.

³⁸ Covey, Stephen. *Principle-Centered Leadership*, Fireside Press. 1992. pp. 179-180.

Schwartz and Carroll³⁹ present the Three Domains approach with a holistic view: economic (responsibility for the global economy), legal (responsibility for shareholders), and ethical (responsibility for stakeholders). This model emphasizes the need for a holistic approach to corporate social responsibility.

Domenec Mele⁴⁰ explains the theory of corporate social performance with a holistic approach, following Wood: 1. Principles of corporate social responsibility are expressed on three levels: institutional (legitimacy), organizational (public accountability), and personal (managerial discretion); 2. Processes oriented to corporate social responsibility (environmental assessment, organization adaptation to the environment, stakeholder and problem management, stakeholder participation and communication); 3. Outcomes of corporate behaviors (social impacts, social programs, social policies).

Ioannis Ioannou and George Serafeim⁴¹ examine three dimensions of corporate social performance with a holistic approach: Environmental Performance (Resource Reduction, Emission Reduction, Product Innovation), Social Performance (Job Quality, Health and Safety, Training and Development, Diversity, Human Rights, Community, Customer/Product Responsibility), and Corporate Governance (Board Structure, Remuneration Policy, Board Roles, Shareholder Rights, Vision, and Strategy). The company benefits from strengthening its links with all stakeholders through legal institutions, political institutions, labor market institutions, and capital market institutions.

Socially Responsible Investment also presents a holistic approach, playing a harmonizing role, which minimizes the conflict between the

³⁹ Schwartz, Mark S. and Archie B. Carroll. Corporate Social Responsibility: A Three-Domain Approach. 2003. *Business Ethics Quarterly*.

⁴⁰ Mele, Domenec. Theories of corporate social responsibility. *The Oxford Handbook of Corporate social responsibility*. Oxford University Press. 2008. New York.

⁴¹ Ioannou, Ioannis, George Serafeim. What drives corporate social performance? The role of nation-level institutions. *Journal of International Business Studies*. 2012.

maximization of economic value and values. Today, many socially responsible investment funds are oriented to specific issues such as ecology, women's needs, or some values such as integrity, justice, non-discrimination, and funds aligned with religious practices. Several investment funds (ethical funds, socially responsible investment funds, and social funds) have been developed for ethically minded investors. They are growing and are performing very well financially.

Corporate Citizenship⁴², as defined by Matten and Crane: "describes the role of business in administering the citizenship rights of individuals", such as social, political, and civil rights, as a provider, facilitator, or channel, in concert with government and civic organizations. Businesses are stewards of social issues with all stakeholders.

In terms of social rights, the firm basically provides or does not provide social services to individuals and thus administers rights by assuming a provider role. In the case of civil rights, the corporation enables or limits the civil rights of citizens and can therefore be seen as administering through a rather enabling role. Finally, in the realm of political rights, society is essentially an additional conduit for the exercise of individuals' political rights; therefore, society primarily assumes administration through a channeling role.⁴³

According to Mark Orlitzky⁴⁴, Corporate Citizenship has many financial benefits for companies: it empowers the organization's reputa-

⁴² Matten, Dirk. Andrew Crane. "Corporate Citizenship: Toward an Extended Theoretical Conceptualization". *Academy of Management Review*. 2005. p. 9.

⁴³ Matten, Dirk. Andrew Crane. Corporate Citizenship: Toward an Extended Theoretical Conceptualization. *Academy of Management Review*. 2005. p. 9.

⁴⁴ Orlitzky, Mark. Corporate social performance and financial performance. A research synthesis. *The Oxford Handbook of Corporate social responsibility*. Oxford University Press. 2008. New York.

tion, improves internal resources and competencies, reduces costs, attracts a more productive workforce, increases sales, and reduces business risks.

5. The ability to transform, heal, execute social actions, drive social change, empowers Intellectual Capital, MVA

Our leadership empowers our ability to transform persons and communities, heal, execute social actions, and drive social change.

Intellectual Capital (human, social, structural capital), MVA, is empowered by:

- As a result of the ideal vision of the future of society into a reality.
- As a result of the effectiveness of the mission, values, purpose, identity, commitment, and role in society.
- As a result of relationships, teams, with agents of social action, drivers of social change, and communities in need of such social action.
- As a result of a practical spirituality, the practice of mercy, promoting the dignity of every human being, and the value of creation, participating in the mission of God, Isaiah 6:1-3 and Luke 4:18 (for Judeo-Christians).
- As a result of discernment that promotes social action, a missionary lifestyle.

The ability to foster the implementation of social actions promotes personal and organizational success and social well-being

A leadership culture promotes social action, promoting social change, which manifests itself in multiple ways:

- Through multiple models of social responsibility such as social innovation, social entrepreneurship, business for social impact, microfinance, food production sustainability, climate change sustainability, energy, and land sustainability, water supply and sanitation policy sustainability, environmental law and policy, education for the most disadvantaged, social healthcare, stakeholder corporate social responsibility, corporate citizenship, corporate social performance in three domains, corporate social responsiveness, social venture capital, socially responsible investment, social work, community development, employee well-being, non-profit organizations, philanthropy.
- Promoting the improvement of the quality of information regarding the vulnerable sectors of society, generating motivation so that more favored sectors want to collaborate.
- Sharing information about leadership initiatives developed by entrepreneurs worldwide can inspire others toward a better world.
- Sharing information about people or communities leading social change and how to join them.
- Promoting discussions of private or governmental initiatives to promote leadership.
- Promoting mechanisms that link social results to organizational decisions, for example, by rewarding business organizations with leadership so that society buys their products.
- Promoting mechanisms to provide transparency in investment so that people can invest in funds with leadership.
- Promoting mechanisms to provide transparency to companies that choose not to relocate their plants abroad so that consumers can reward these companies by buying their products.
- Promoting mechanisms to support communities that have lost their jobs due to the relocation of factories abroad.

- Promoting mechanisms to provide transparency so that customers, investors, employees reward companies that do not apply abusive and predatory practices.
- Promoting the abandonment of stock exchanges to remove the pressure to maximize economic value, being ultimately rewarded by stakeholders.

All stakeholders must act as leaders: when they buy products or services, when they invest in stocks or funds, as government officials, as politicians, and as citizens who vote for future government authorities: they must create a political and economic system based on leadership. Markets would no longer be blind. Resources would be allocated based on values. Each individual's leadership is necessary for markets to allocate resources with corporate social responsibility.

This focuses attention on every person and every community: leadership is required from all members of society, even on issues that do not seem to be related to social responsibility.

For example, if people in country A waste resources such as oil, food, or money, it can impact by increasing the prices of resources or products, which indirectly impoverishes people in country B.

This focuses social responsibility on the whole of society, leading to a systemic, integral vision.

Companies can be socially responsible, but it may be impossible if other stakeholders have different objectives.

Some large pharmaceutical companies sell drugs to cure HIV in Africa. There is a debate about whether they should sell the drugs at low prices to help lower-income populations, even if this does not help them maximize economic value. Other stakeholders must assume social responsibility: local and international governments, local and international communities, citizens of those countries or other countries, large NGOs, faith-based organizations, philanthropic organizations, private social entrepreneurship initiatives, and other business organizations.

In a typical business organization, the shareholders are equity investors, pension funds, investment funds, private investors, and the public. The lack of leadership of the public is reflected in several situations, which limit the possible good initiatives of companies:

- There are several ethical funds, responsible corporate funds, with excellent financial performance and lower risk; however, their market share is barely 1%, so 99% of the public does not seem to care about investing ethically.
- There are several lists of ethical companies on the Internet, however, consumers rarely make consumer decisions based on them.

A leadership culture empowers business ethics

A leadership culture enriches ethics, promoting the best possible behavior for the transcendence of the person and community, maximizing goodness, beauty, truth, and love. Ethics is no longer the minimum required behavior to avoid not doing something wrong.

A leadership culture empowers the cognitive, transcendence, axiological, relational, religious, discernment, social transformation, and social action dimensions.

A leadership culture empowers the cognitive dimension of ethics: prudence, wisdom, mental clarity, emotional awareness, judgment, ability to learn, richer personal and community knowledge, enlightened by meditation, contemplation, building personal authenticity, improving the consequentialism of utilitarianism, improving the criteria of idealistic normative ethics.

A leadership culture empowers the transcendental dimension of ethics, valuing and building transcendence, goodness, beauty, truth, love, and the "participation" of creatures in the perfections of the creator (for religious persons).

A leadership culture empowers the axiological dimension of ethics, fostering awareness, knowledge, perceptions, and feelings. Scheler's value ranges prioritize right, aesthetics, and truth. Values lead people and organizations to change behaviors, build virtues, maximizing happiness. Values foster personal and social transformation.

A leadership culture empowers the relational dimension of ethics, promoting an ethical community, with reciprocity, social justice, social inclusion, cooperation, solidarity, work for the common good, pacification, harmonization, promoting the end of crime, the end of abuses of power and economic resources.

A leadership culture empowers the execution of ethics: motivation and energy, emotional control, and the ability to communicate, understand and interact with people promoting a better reality.

A leadership culture empowers social ethics

Social ethics emerged during the 18th to 20th centuries due to the social conflicts that arose due to extreme individualism and collectivism. Several events produced profound social effects: the French Revolution, the Industrial Revolution, the Soviet Revolution, and the World Wars, to name the most relevant.

These events generated a social response reflected in numerous social movements, supported by different ideologies, and in proposals from different socio-economic sciences.

Social ethics presents social ideals, ethical principles, and behavioral guidelines to illuminate the conduct of individuals, organizations, the state, and markets oriented to the benefit of society.

Social ethics is not a discipline nor a branch of a discipline. It is, above all, a set of some universal understandings that emerge from a diversity of disciplines, especially from some philosophical and religious traditions.

Georgia Harkness poses a dilemma as to whether social ethics should be considered from a philosophical or religious point of view.

She states that philosophical social ethics "will be largely a study of social theory. Great emphasis will be placed on Plato's and Aristotle's theories of the state, Stoic cosmopolitanism and the doctrine of natural rights, the rise of individualism in the Renaissance, and the many currents of social and political theory that have developed since"⁴⁵.

For her, social ethics based on religion would be "to place itself in the catalog as Christian ethics, or the social teachings of Jesus, or of the prophets... in the framework of its time, and also to discover its relevance for our days... to vivify ideals... it brings the insights of the past to bear on the injustices of the present... scholarship without social passion will not suffice".

It is enlightening that for Harkness, passion, the dimension of leadership, is not produced by the philosophical side but by the religious side. Following his views, someone may wonder if it is possible to build passion based only on philosophical principles; this thesis defends the view that it is possible: realism and phenomenology, as discussed above, engender the vision, the mission, the passion: leadership.

A leadership culture empowers corporate social responsibility

A leadership culture empowers corporate social responsibility: Stakeholder Theory contributes to the harmony of society, Corporate Citizenship places the organization as part of the community, Worker Well-being and Paternalism reinforce employee loyalty to the organization, and Corporate Social Performance relies on mechanisms that integrate the entire organization, its resources, and processes behind social issues. A leadership culture leads all stakeholders (all interested parties, not only companies) to develop the maximum capital for society as investors, customers, citizens, and government agents: maximizing social responsibility is everyone's responsibility.

⁴⁵ Harkness, Georgia. The Relation of Social Ethics to the Curriculum as a Whole. *Journal of the National Association of Biblical Instructors*. 2016. p. 3.

FINAL REFLECTIONS

A good way to understand the benefits of the intuitions presented in this volume is with one example.

Imagine we are the CEO of a global pharmaceutical firm and must decide the best strategy to sell drugs to treat HIV in Africa.

One strategy can be high prices today to maximize economic profits, with a negative social impact.

Discernment can lead us to decide to create economic value on the basis of reducing prices today, promoting future success, creating VAM, based on its connection with Intellectual Capital, as shown in Figure 35.

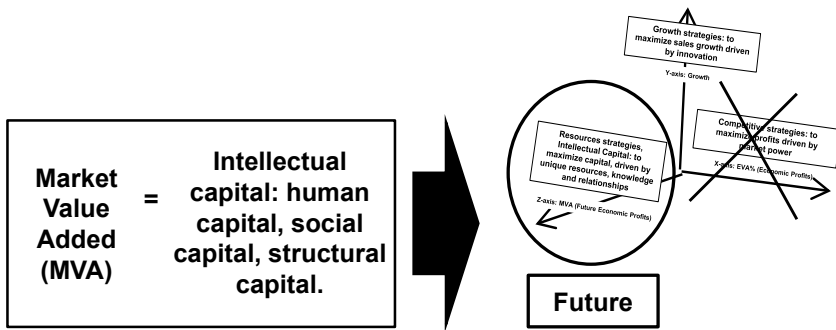


Figure 35 Making decisions relying on discernment

Focusing on the future may positively impact the economic value of the company by raising its MVA, its Intellectual Capital:

- This decision helps to build human capital as employees and other stakeholders may be willing to contribute with more knowledge based on trust, shared values, shared mission, and shared will to execute social action.
- It helps to build social capital by establishing more stable and stronger relationships, trust, and collaboration among stakeholders.

- It helps to build structural capital with committed stakeholders working harder, building efficiency, and better processes.
- The discernment of many organizations may impact the National Intellectual Capital, which may positively impact the aggregate demand and supply, involving more economic agents, and raising production and sales volumes.

This example helps to summarize the four volumes of this collection:

- Our leadership provides resources: consciousness, IQ, EQ, and SQ, wisdom, transcendence, connectedness, values, relationships, discernment, their capacity to transform and execute social actions.
- Those resources enrich the Intellectual Capital of the organization, building social capital (knowledge), social capital (relationships) and structural capital (systems and processes).
- Human, social and structural capital positively impact the future, ensuring organizational success, creating economic value, and promoting social well-being.

This is just an example of how discernment can help solve ethical and social dilemmas of strategic management.

World peace results from our leadership impacting decision-making by providing resources and promoting social well-being, nutrition, shelter, sanitation, healthcare, and education.

World peace results from our leadership, providing discernment to solve the adverse social outcomes that economic value creation and critical thinking in strategic management may generate.