

The Theory and Practice of Value Creation

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By

Leon Miller

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The foundation of my value-centered approach to life was established while growing up in the southeast region of the Quaker State (Pennsylvania, USA) where I was nurtured in the ideas and convictions of the state's founding father(s). Thus, I have a tremendous amount of gratitude for the mentors and positive role models of my childhood and youth. This book represents many years of reflecting on the role of values in the human experience that I began shaping into an academic discourse at the University of Chicago Cluster of Theological Schools. It was during seminary training at The University of Chicago that I first began writing academic articles on the role of values in the lives of individuals. It was also at the University of Chicago that I was introduced to a discourse between the Booth School of Economics (with a focus on economic value theory, rational expectations/model-consistent expectations, and satisfying the interests of shareholders) and The Chicago School of Sociology – sometimes described as the Ecological School. The Chicago School of Sociology maintained a focus on social value theory, human well-being in social psychological terms, and representing a theoretical tradition still influenced by early Pragmatism.

I must also acknowledge the influence that came from my courses at the University of Chicago's seminary that proposed eco-justice as a viable approach to sustainable peace for our future global society. While studying peace research, Professor Engel in particular (professor of social and environmental ethics and a member of the Commission writing the Earth Charter) admonished that given the rising concern over environmental crises, angst over the environment and climate change would increasingly be felt by larger segments of humanity. He envisioned that the crises would increase the extent to which there will be concerted efforts to co-create a more sustainable global future. Doctor Engel impressed me with his vision that the sustainability paradigm would become a future basis for international cooperation. In other words, increasingly larger numbers of people would be willing to cooperate to collaboratively co-create a future more reflective of the respect for nature that is shared by humanity. He believed that concern for the environment, for the fair management and distribution of the world's natural resources, for social planning that balances endeavors to increase material satisfaction with the desire to

increase humanity's experience of higher order values, and planning that increases holistic well-being would contribute to transforming the problems of the current economic development paradigm by means of the preferred sustainability approach to social economic development.

In addition, I must acknowledge the benefits of the many years of experience as a university instructor in the very northeast corner of Europe where I experienced the intersection of Scandinavian views on co-creating social reality, their mixed economy and social welfare approach to social economics and political economy, and Western views on freedom of association. In particular, the further one goes toward the north and east of Europe, one will find an extremely high level of value placed on harmonious nature-human relations. Thus, the experience taught me how people living in one of the most challenging climates in the world are among those who seem to have the strongest desire for planning social and economic activity that is least disruptive to the environment. However, what is almost amazing, I learned that as well as pioneering environmentalism the north and east of Europe represent economies that are among the world's most impressive, who score high on the global innovation scoreboard, have a large number of municipalities on the Forbes top ten list of the world's smart cities, who top the list of the least corrupt countries in the world, which Forbes has listed as the best places in the world to do business, and who score highest on the world's happiness index. Thus, it was in the very northeast of Europe that I began to clearly see the social economic, social psychological, as well as eco-aesthetic advantages of applying the value creation concept to sustainable social economic planning.

My acknowledgements must include mention of the benefits of collaborating with academic partners in Odisha and Northeast India where we conducted research on a value-based approach to sustainable social economic planning. Doctor Biswajit Das (Head of the PhD Program and professor of marketing at KIIT University in Bhubaneswar, Odisha, India) made it possible for me to spend extended periods of time researching Indian perspectives on value and the role of value in Indian social economic planning. Finally, The Indian Council of Social Science Research acknowledged the benefit of the Value-based Approach to Sustainable Social Economic Planning in the form of a small research grant given in cooperation with The International Center for Northeast Studies – a center located in Shillong, Northeast India. This grant provided an opportunity to explore the difference in the value perspectives of tribal-villagers, larger village units, small municipalities, and large urban areas in India.

PREFACE

Value creation is heralded as being one of the most effective means for improving professional, organizational, institutional, and social economic performance. Its effectiveness is based on its ability to engage customers and stakeholders in interactions that take place in a network that produces outcomes that are beneficial and satisfactory for increasingly larger numbers of social stakeholders. Acclamations in support of the value creation concept are proclaimed by social scientists, experts in organizational behavior, management experts, marketing professionals, public administrators, and even heads of state. For example, Barack Obama, the former president of the United States – characterized as the first social media president – intentionally used social media networks in his attempt to create public value by means of establishing an open participative public platform to interact with social stakeholders. It was on his first day in office that he issued a statement indicating his commitment to creating an unprecedented level of openness and participation by engaging citizens in a process of collaboration to co-create outcomes that would be beneficial and satisfactory for society. He believed that engaging the public by means of social networking would “Strengthen democracy and promote efficiency and effectiveness in government” (quoted by Hibbets 2013, 8). Obama’s statement is an indication of the extent to which the value creation concept is influencing social relations and social communications at every level of society and is now even influencing transnational social activity.

The resurgence of the value concept is reminding scholars that prescriptions for creating value are fundamental to Western Civilization's notion of social relations and market activity. There are fundamental principles that undergird Western Civilization’s social economic activity that stress the essential connection between conceptualizations of value creation, ensuring the right of individuals to pursue what they believe is in their best interest, and social flourishing. I use the term resurgence because, as this book explains, the value creation concept calls for re-consideration of our fundamental notions of value and the relationship between values and sustainable social economic growth. This includes reconsidering value rationality, the neural dynamics of choice (neurological value predispositions), the role of values in social action and social exchange, the impact of the co-

creation of value concept on government-public relations, and the role of values in conceptualizing humanity's relationship with the environment.

This book explores the fundamental principles underlying the value creation concept by tracing it back to its roots. The fundamental principles form the basis of a comprehensive explanation of the role that the value concept played in establishing the foundation of Western convictions on how to increase benefits for individuals while creating outcomes that are mutually beneficial. For much of history this perspective on value served as the model for market exchange and social economic relations plus was considered the best means for social flourishing and for establishing the most suitable relationship between society and the environment. In fact, initial conceptualizations of valuation established the foundation of notions of natural law (the precursor of Human Rights). This book traces the development of the value creation concept as it rose to become one of the most prominent contemporary social constructs. The prominence of the concept results from the fact that it reflects the fundamental principles of how a just society establishes beneficial interactions between its societal members, how to protect and promote individual rights, how significant the nature-human relationship is for social flourishing and, as well, the concept is expressive of perennial wisdom that most societies continue to cherish. Creating value by networking to generate knowledge of how to increase benefits for shareholders, customers, and stakeholders has become the basic intention or main goal of almost all business organizations. The concept has evolved to the point of initiating a global value creation network that cooperates in the effort to increase the effectiveness of the global value chain and to make sure that global stakeholders experience the value they are hoping for. This endeavor is tantamount to widespread agreement that cooperative relationships can be organized at multi-levels to ensure that the global value creation network – in addition to increasing material prosperity – operates in a way that increases human well-being, that promotes sustainability, and promotes the fair use and distribution of natural resources. The fair use and distribution of natural resources promotes peace and the reduction of resource-based conflicts.

This new perspective is the consequence of a shift away from the prior firm-centric focus on *capturing value* from customers as a means of increasing profit. The value creation concept represents a shift toward a customer-centered relational approach to organizational-stakeholder interactions. Contrary to the prior *capturing value* approach to market exchange and social economic relations – that dominated the industrial era and persisted

throughout parts of the last century – the new paradigm is not only based on creating value for customers but proposes the co-creation of value process as a means of establishing and maintaining a more personalized relationship with the customer. This approach prompts a new perspective on how business organizations and public institutions interact with the public – which is now referred to as a relational approach to organizational marketing and a co-creation of value approach to how public institutions increase public value. Thus, the concept promises to offer a framework for democratizing value creation and for rectifying some of the problems that have hampered improving the quality of democracy – for example, Max Weber’s concern with instituting a more effective democracy by balancing social and economic value theories.

An exploratory study of contexts where the value creation concept is successfully applied to produce highly desirable results reveals that it equips individuals, organizations, public administrators, and experts in political economy with a comprehensive, integrative, multi-dimensional means of improving social economic performance. The value creation concept is a comprehensive model for reconciling the longstanding dichotomy between increasing value in terms of material prosperity and value in terms of individual and social well-being. In this respect, this book is an explanation of how the value creation concept addresses and satisfies the interests of stakeholders at every level of social interaction.

This book will provide benefit to individuals who are looking for ways to be more successful in their professional lives while, at the same time, it offers insight into how individuals can be happier and experience more meaning and fulfillment in their personal lives. In this respect, the book offers individuals a prescription for experiencing more of what has intrinsic value and it provides insight into how to couple professional success with holistic well-being. It offers tremendous benefit for entrepreneurs, for organizational leaders, and for managers by providing a value creation framework for generating knowledge that contributes to increasing innovative activity and improving organizational performance. It also provides an explanation of how to effectively motivate knowledge workers, thus insight into effective human resource management. In addition, the book explains the relationship between the co-creation of value concept, increasing customer satisfaction, and increasing customer loyalty. Institutional leaders also benefit from the book’s insight into how to increase relational capital, how to increase social capital, and how to create public value. Thus, this book has enormous value for public administrators who are now realizing

that the success of the value creation concept in the private sector can also be experienced by public sector institutions. Public sector administrators are increasingly showing interest in applying the concept as a strategy for improving the relationship between government and the public, for improving the quality of services offered to the public, for increasing social value, and for improving the quality of democracy.

The value creation concept also addresses the growing environmental concerns expressed by larger segments of the global community. Increasingly, global stakeholders agree that the environment is a shared value that is so important that it is worth transcending our differences, rivalries, and attempts to gain power advantages to cooperate in collaborative networks to determine how to co-create a more sustainable future. This environmentally oriented global social network operates with the intention of co-creating strategies for addressing one of today's most vital concerns (if not the most important issue of our time according to the UN). Along these lines, collaborating to co-create strategies for counterbalancing the inadequacies of the development paradigm by implementing the sustainability discourse is necessary for our collective security. Without this step forward the quality of the conditions of nature – one of humanity's most cherished and essential values – will continually deteriorate. In this respect, the book proposes that the co-creation of value concept is a new and viable approach to corporate social responsibility and is a means for resolving the long-standing dichotomy between social and economic value theories. Thus, this book proposes that there is a preference amongst global stakeholders for widening the otherwise narrow scope of or perspective on values that had typically dominated economic development planning. By widening conceptualizations of value, to balance material values with values in a broader social sense, we are better able to shape our future global social and environmental condition into a ubiquitous eco-aesthetic blend that appeals to and satisfies humanity's material and higher order value needs.

INTRODUCTION

“Value is a conception – explicit or implicit – that is distinctive of an individual or characteristic of a group. Value propositions distinguish what is considered desirable and they influence the selection, preferences, and ends chosen from available modes, means, and actions” (Kluckhohn 1951, 395).

The integrative multidimensional approach to value creation has a long history of being successfully applied as a strategy for performance improvement. Testimonies of its effectiveness are proclaimed by individuals who refer to it for insight into how to achieve happiness, success, and prosperity; by organizational leaders who use it as a theory of management; by public authorities as a strategy for improving social processes; and by political economists for determining how to generate wealth. In addition, it has been used to determine how a society can balance its material pursuits with its endeavor to have a proper relationship with the natural order. The valuation concept is associated with the foundational principles of Western social economics, market exchange, political economy, and social psychology. In accordance with its traditional meaning, creating value is the practice of establishing processes, procedures, and activities that enhance the quality of relationships, enhance market exchange, improve the quality of the goods and services offered to the public, and increase social solidarity. From its inception, the success of the value creation concept has been based on engaging individuals in value creating processes and networks. Value-creating processes and systems are market networks that are integrated with social networks to create value for a greater number of social stakeholders. Thus, value creation is defined as processes and activities that establish alliances of sustainable cooperation between stakeholders. Each stakeholder engages in interactions within value creating networks, each cooperates to co-produce and deliver increased benefits in terms valued by the individual stakeholders, and each engages in processes connected with a particular aspect of a value chain. In reference to organizational behavior, value creation is defined as processes that enhance social action by generating an increase in benefits and satisfaction in addition to other rewarding outcomes.

The value creation concept contributes to increasing the effectiveness of organizational activity and the efficiency of organizational processes by integrating internal and external relationships, communications, and networks in a way that generates knowledge of how to achieve optimal internal and external performance improvement. The value creation concept increases effectiveness and efficiency because it is not only a strategy for assessing performance, but it is also a strategy for generating knowledge of how to improve performance. The interrelationships prove to be an effective means of strengthening the organization's ability to produce and deliver value to its customers and the participants in its value network. Thus, it is the quality of the relationships that improves performance. The sustainable competitive advantage of an organization is enhanced by establishing value-creating communication networks. The internal communication interactions contribute to enhancing the value-added component of the value creation process and the external communication interactions contribute to the co-creation and co-production aspects of the value creation process. Thus, applying the integrative value creation concept improves performance because it calls for establishing communication networks that enhance the organization's value-added processes as well as those for value creation.

In this way, value creation is a strategy for determining the most effective and efficient means of achieving the organization's mission, vision, and goal. In fact, increasing the value creation capabilities of today's businesses is within itself the primary goal that organizations and institutions seek to achieve. This book provides insight into the most effective and efficient means of achieving the organization's mission, vision, and goals by explaining a strategy for integrating the value assets available in the form of relational capital, the value assets made available by establishing value creating processes with stakeholders, and assets in the form of structural capital. Structural capital includes the networking resources made available by advanced communication technologies. In this respect, the value creation concept is applied as a strategy for internal-external collaboration which improves performance by generating knowledge of how to transcend the limitations of the usual narrow scope of a firm – which traditionally has been internal.

Value-creating networks are actually (re)defining the nature of contemporary market activity and exchange. The interface between the value creation concept and networking represents a paradigm shift from the way organizational specialists and economists thought of the nature of value during the prior segment of the industrial era. Value in the new market sense

is co-created within a chain of relationships that facilitate the input and output of value between organizations, institutions, their stakeholders and the flow of knowledge, resources, and finances. Thus, adopting processes of networked collaboration is an essential aspect of improving the organization's performance. Organizations adopting value creation processes generate a new type of transformative power that is indicative of what gives rise to power in the networked economy. The new type of transformative power is characterized as an increased convergence of industries, resources, markets, and information communication technologies which are restructured into integrated networks. This makes the value that is co-created in integrated networks the key value driver of today's market. In this respect, the integrative approach to value creation plays a role in improving performance because it is a strategy for increasing the adaptive efficiency of professionals, organizations, and economies.

Adaptive efficiency means being able to learn new possibilities; to generate knowledge that induces innovation; and having the flexibility to transform existing resources into value offers that are of higher quality, have functions that are more user-friendly, have features users find more appealing, and provide greater satisfaction to end-users. Therefore, adaptability means being able to generate new possibilities for creating value. Adaptive efficiency is the outcome of making use of intangible capital to determine the aspirations of stakeholders and convert customer aspirations into profitable performance outcomes. In other words, it means realizing and taking advantage of the tangible benefits created by effectively managing and making use of value intangibles. Value creation contributes to adaptive efficiency and flexibility because it generates knowledge of how to co-produce the innovative new creations that shape the direction in which the economy is evolving. Flexibility enables adjusting and transforming current operative processes and procedures in ways that increase their value-creating capabilities. Value creation prompts innovation, quality improvement, and performance improvement by inducing problem-solving information and innovative knowledge that generates new, innovative, creative breakthroughs.

The impact of the value creation concept on social relations and market activity has prompted analysts to claim that the future of market exchange and activity will be described in entirely new revolutionary social and economic terms. The change can be described as a shift from an emphasis on gaining competitive advantage by effectively marketing products thought important to a business to emphasizing the competitive advantage

of engaging with stakeholders in co-creating the value deemed important to end-users. This shift decentralizes the notion of what is of utility value and regards improvements in value, quality, and function as outcomes generated by relationships occurring between the company and its stakeholders. In this respect, achieving the benefits that the application of the concept potentially offers requires an integrative approach to value creation. On the one hand, from an organizational perspective, an integrative approach to value creation is a strategy for satisfying the interests of the wide range of stakeholders associated with an organization (e.g., owners/shareholders, managers and workers, customers, and social stakeholders).

However, on the other hand, conceptualizations of valuation have a broader meaning that reflects an integrated systems perspective on how organizational, institutional, economic, and social systems work best. This approach proposes that systems operate best as integrated, open, collaborative, communication networks. The integrated systems approach to creating value balances concern for the internal factors influencing performance with concern for the external factors that influence performance. The environment is considered an external factor that impacts individuals, organizations, communities, economies, and social systems. This makes the integrative approach to value creation a comprehensive model that is based on the conviction that there is a correlation between improving social economic performance and increasing beneficial relationships between nature and humanity. In addition, the integrative or systems framework emphasizes the concepts interdependence and relationality – which are important for analyzing the social psychological dynamics of organizations, institutions, economies, and social systems. In other words, the integrative approach emphasizes that organizations, institutions, and economies exist as subsystems within a larger environment in which they are embedded – which implies the necessity of having concern for social responsibility and sustainability.

This book explains how the integrative approach to value creation can be applied to social economic systems as a means of integrating the resources of society to create increased benefits for larger segments of society and, in doing so, improve the performance of the overall social system. This approach ultimately generates an increase in public value and plays a role in creating social capital. In fact, it can be argued that social systems work best when the various institutions of society (e.g., government, educational and research centers, the commercial sector, economists, the media, etc.) all cooperate to coordinate or integrate the resources of society to promote an

increase in what is valued, desired, and sought by its individual members. In this sense, the extent to which a society creates value determines its ability to develop a thriving, healthy, just social system where individuals experience what they have reason to value (Sen 1999). Flourishing societies are ones that are most effective in creating value that can be experienced by individuals in accordance with their value preferences and by the overall public in terms of prosperity and social flourishing.

Improving the overall conditions of society in the technological age occurs by initiating processes of social action that take place within open, participatory, integrated, communication networks. Such value creating networks include the public, the market and marketing specialists, public authorities, and the media – both established and alternative media (alternative media are, in general, media facilities made available by advances in information communication technology). In this respect, creating value is no longer thought of in terms of what is done exclusively inside of a factory that produces items with a high level of value for exchange (i.e., items that can be sold with the right type of value added to generate profit by convincing the customer that the value is worth the price). In addition, value is also no longer merely thought of as market or economic activity that focuses on increasing the material capabilities and advantages of individuals and of special interest groups. Value in the knowledge economy is collaboratively co-created by stakeholders who interact in value-creating networks using alternative forms of capital to produce outcomes satisfactory to the stakeholders. Various forms of value assets include equitable intangible capital which is easily converted into tangible and profitable capital. Pierre Bourdieu (the first to refer to new forms of capital such as relational, social, and cultural capital) defined capital as “The aggregate of resources linked to socially instituted networks of relationships” (2002, 286).

The information communication technology (ICT) revolution in particular increases possibilities for more effective coordination of organizational processes, for more efficient production of desired outcomes, for improving internal-external communication processes, and ICT enhances patterns of interaction in ways that maximize the value created by participants within integrated social networks. This makes an understanding of network capital an essential aspect of managing businesses and institutions in the technological age. An understanding of network capital involves knowledge of how information communication technology can be employed to enhance value creation processes, to dramatically reduce cost, to increase organizational flexibility, thus to effectively and efficiently operate and better manage the

intangible and tangible resources of private organizations and public institutions. The ICT revolution is part of the new techno-economic paradigm shift in which people, organizations, and institutions engage in inclusive interdependent relationships in an endeavor to optimize their ability to sustain the value created at each stage of the value chain and to maximize the benefit in terms of the value that the system provides. ICT breaks down the barriers that have kept stakeholders isolated from each other and, at the same time, plays a role in integrating and converging their interests. These interactions, for the most part, take place by means of the communication media resources provided by information communication technology – which establish more effective and cost-saving ways for stakeholders to collaborate and coordinate their efforts.

Although what is considered valuable is subjective (people decide themselves what is worth devoting time and energy to or what is worth devoting time and energy to obtain), the process of creating value has always been a matter of social action. Creating value happens best in relationships, interactions, and exchanges. From the inception of conceptualizations of value creation, it was understood as a process that requires effectively managing interactions and effectively negotiating exchange. In this respect, this book also explores the social psychological aspects of creating value by explaining why it is not only a matter of market exchange and economic activity but, as well, is a form of social exchange and social action. This includes explanations of why there is a connection between the intention to create value and the endeavor to enhance the dynamic capabilities of a social economic system and its agents. That is to say that the fundamental principles of value creation include insight into what intrinsic ends are most worth achieving and what instrumental means are best for achieving the desired outcome. This includes realization of the significance of interdependence in every aspect of contemporary social activity and at every level of economic exchange – which makes success dependent on counterbalancing one's efforts at personal achievement with cooperative collaboration.

Values involve preference and, as well, values spark the endeavor to “Substitute a more satisfactory state of affairs for a less satisfactory” (von Mises 1998, 13). In addition, values motivate action aimed at bringing about the preferred, desired, or valued end state. Successfully achieving one's desired end value means achieving one's goal and the ability to achieve the outcome one desires is a manifestation of a particular type of power. In this respect, the value creation concept offers a means of empowering individuals

in their pursuit of happiness and success by reminding them to keep a focus on their core values. Keeping a focus on core values is the basis of quality and excellence in character and performance – which becomes the key to increasing prosperity. This book explains why and how performance improves when individuals align their vision and goal with their personal core values. One's value orientation influences success because core values determine what a person believes is of ultimate worth (your vision), what steps you plan to take to transform your ultimate goals into tangible accomplishments (your mission), and the means that you consider appropriate for achieving your goal (your values). This is especially true of those who reach higher levels of success and, as well, is true of outstanding leaders. Superior performance stems from what is referred to as “value centered leadership”, principled leadership, or transformational leadership. The key is using relational leadership or the transformational style to increase adaptability and synergetic interactions, and to align value commitments with life endeavors (Burns 1978, 4).

Values concern the core issues of our lives in that they are a guideline for how we conduct our lives, they determine how we relate to others, they are the basis of inner vision, the basis of self-motivation, of self-determination, and for transforming possibilities into tangible outcomes. This means that the value orientation of individuals determines their ability to create the value outcome they are hoping for. The value orientation of individuals determines how they understand what it means to create value for themselves, for the organizations and institutions they are affiliated with, and what it means to create value for the communities they are a part of. Individual perspectives on values also determine the receptiveness of others to their value proposition. Simply put, the core values that one operates by are evident in the value-creating capabilities of the person and his or her ability to sustain value-creating relationships. Core values are the basis of success for individuals, the driving force for the success of organizations and institutions, and, as well, the basis of a meaningful and fulfilling life. According to Michael Eugene Porter (Harvard University Professor of Business and one of the pioneers in promoting the resurgence of the value creation concept), a person's core values represent the primary component of happiness and success.

Personal values are guiding principles and the perceptual filter through which individuals decide how to align their convictions with their professional, organizational, institutional, and social activities. Top performers in life and in business align their values, life pursuits, their way of acting,

and their way of relating to others to maximize the value return for themselves but in ways that are also considered valuable for others. By all indications, success in life and in business is based on the extent to which individuals are motivated by an inner driving force that energizes and motivates them and provides a sense of life mission, purpose, and vision. In this respect, this book offers the benefit of advising individuals on how to be better at sustaining well-being, happiness, and success. As is made clear by Western Civilization's foundational principles of holistic well-being, social psychology, and social economics – the key to the ability to achieve the outcome one is hoping for is a value-centered approach to life. Developing one's character is important because it is the means of eliminating the gap between what a person values most and what the person experiences most. In addition, for leaders of organizations, institutions, and society, the book provides insight into how to sustain flourishing and prosperous social systems. Thus, the book explains how a value-centered approach to life enables individuals to get more of what they want out of life, and it explains the character traits that empower managers and organizational leaders to motivate other professionals in a way that results in improved organizational performance. In short, empowering individuals, organizations, institutions, and societal leaders with an increased ability to experience the outcome they are hoping for is one of the main benefits this book has to offer.

Chapter one explains the connection between personal values and happiness, holistic well-being, professional success, the relationship between values and management, and the relationship between core values and effective leadership. The chapter also explains the connection between the fundamental principles of value creation and self-motivation, self-determination, professionalism, management, and leadership. Thus, chapter one explains the connection between core values and the essential principles of management that are also advocated by social psychology. These leader-types all reflect a character that has achieved some degree of "self-actualization" in terms of Humanistic Psychology. Such leaders reflect personal integrity, authentic being, and self-cultivation in terms of how one could interpret Aristotle's Virtue Ethics and his explanation of the character traits connected with achieving one's highest good. They also reflect transformational leadership in terms put forth by James MacGregor Burns (an expert on leadership who received a Pulitzer Prize for his written work on leadership) (Miller 2015a, 13). Burns stressed that a value-centered approach to management and leadership has a transformational effect that is manifest in terms of an improved quality of relationship between the

leader and the workers, an increase in high-quality outputs that are inspired by the relationship, and a value congruence established between the workers and the organization. Value congruence contributes to achieving the mission, vision, and purpose of the organization – thus the transformational effect is evident in high quality performance (Burns 1978, 18-21).

Chapter two analyzes the stages of the development of organizational theory to explain the reasons why the value creation concept has become so popular in organizational literature. The chapter begins by explaining the definition and nature of organizations. This includes explaining the evolution of the contemporary value creation concept and its role in management theory. This involves explaining value in terms of the economic value added, the process of added value during production and by marketing, value in exchange, and ultimately the relationship between the value creation concept and the resurgence of the *value in use* concept. In addition, chapter two explains why congruence between the value commitments of the workers, managers, and owner(s) plays an important role in achieving the organization's mission, vision, and goal. In this respect, the chapter helps organizational managers and leaders to understand the relationship between value creation and the effective management of a company's tangible and intangible resources. This is followed by explaining the impact of the transformation of the value management concept into the value creation concept plus the impact that advances in information communication technology have on organizational behavior and strategies for improving performance.

Chapter three provides a detailed explanation of the integrative value creation concept. This includes explaining the foundation of the value creation concept and why its resurgence is heralded as the most viable strategy for effective organization management, for the effective management of economic resources, and for progressive social economic activity. This chapter traces the value creation concept from its roots at the foundation of Western Civilization through Adam Smith's claims about the role it plays in creating wealth, on up to Max Weber and finally to recent claims that the value creation concept can be applied to social economic activity to increase the society's ability to create prosperity and flourishing. In other words, the chapter explains how the concept can be employed in a way that enhances society's ability to provide its citizens the good life. The chapter emphasizes why the integrative approach to value creation generates value in both material terms and in terms that appeal to humanity's higher order value concerns. In this respect, the chapter highlights the role that the integrative

approach to value creation plays in reconciling the dichotomy between social value theory and economic value theory.

Chapter four explains the factors involved in applying the integrative approach to value creation as an organizational strategy and for designing an organizational structure. The chapter indicates that value creation is not only a significant new perspective for satisfying stakeholders, but it can also be applied as a viable business model and strategy that is congruent with theories on improving knowledge age business operations. Although the recent literature has popularized the value creation concept, by asserting that it is a particularly beneficial new perspective on organizational and market activity, the literature has been inadequate in explaining the value creation concept in terms that are most important to practitioners. To fill in the gap chapter four specifies the factors that make it effective for improving organizational performance and, as well, the factors that can be applied by researchers who want to test the validity of the claims. Thus, the chapter explains how the concept applies to new conceptualizations of the business model and strategy and how it applies to how an organization is structured.

Chapter five points out the role that the value creation concept plays in creating sustainable value. That is to say that the chapter explains how the basic concept of value creation can be expanded to include co-creating benefits for society, the economy, and the environment. Thus, chapter five introduces the prospect of democratizing value creation by reinstituting the fundamental principles of social economics and the relationship between thriving societies and social action that is in harmony with the forces shaping the natural order. The fundamental conceptualizations of social and market exchange propose that a flourishing social system is based on establishing types of social action that increase the benefits individuals enjoy in their relationship with each other and with their environment.

Chapter six proposes that a value creation theory can be derived from the concepts and principles that are fundamental to value creation. Since its emergence, the value concept has been explicated in an abundance of literature. However, there has been little in terms of explanations detailing the theoretical underpinnings of the concept. Chapter six fills that void by explaining the theoretical framework for the creation of value concept. Chapter six also explains the theoretical strategy for conjoining the firm-centric (value in exchange) and client-centric (value in use) economic value theories. The integration of the two reconciles the historical dichotomy between social value theory and economic value theory. Because the value

creation concept has a history rooted in the earliest stages of Western Civilization and has an interface with so many disciplines, an explanation of the theoretical framework for value research demands an integrative, interdisciplinary, and historical approach to analyzing the social psychological and social economic aspects of the concept. Therefore, the chapter provides a historical and social economic analysis of the topic as found in the works of Aristotle, 1959; Weber, 1947, 1978; Schumpeter, 2006; Parsons and Smelser, 1956/1969. However, an analysis of the literature on value creation is also inclusive of organizational theory as it evolved in the twentieth century and reflected in the literature of the contemporary proponents of value creation.

CHAPTER 1

THE ROLE VALUES PLAY IN HAPPINESS, SUCCESS, AND LEADERSHIP

“There rarely is a conflict between a person’s strengths and the way that person performs. The two are complementary. But there is sometimes a conflict between a person’s values and the person’s strengths. What one does well – even very well and successfully – may not fit with one’s value system. Many years ago, I too, had to decide between what I was doing well and successfully, and my values. I was doing extremely well as a young investment banker in London; it clearly fitted my strengths. Yet I did not see myself making a contribution as an asset manager. People, I realized, were my values. I had no money, no other job in a deep Depression, and no prospects. But I quit—and it was the right thing. Values, in other words, are and should be the ultimate test.”

(Drucker 2007, 153-154).

Conceptualizations of value creation are in accord with the Capability Theory claim that values have social psychological and social economic significance. Capability theorists propose an approach to social exchange, market exchange, economic activity, sustainability, and social economic development that empowers individuals to live in accordance with “The kind of life that they have reason to value” (Sen 1999, 10) and it commits itself to respect an individual’s power of self-determination. “It is focused on freedom of choice – holding that the crucial good that good societies should promote for their people is the freedom to choose” (Nussbaum 2011, 18). In this respect, the value creation concept has a complementary connection with the fundamental principles upon which the theories of self-cultivation and self-actualization are based.

The link between Capability Theory and the ability of individuals to live in accordance with the kind of life that they value most was established with the initial conceptualizations of the value creation concept. Capability Theory can be traced back to Western Civilization’s foundational principles of social economics and social psychology. Capability Theory entails the proposition that individuals have the natural right to exercise the freedom to

pursue what they believe is in their best interest. This entails the freedom to experience what they consider to be life's most worthwhile pursuit. In other words, the freedom to exercise their rights by eliminating the gap between what they value most and what they experience most. For example, Aristotle proposed that every action is undertaken to achieve a *value end* and human capability is defined as the ability to produce one's desired outcome or, in other words, the ability to produce outcomes where nothing valued is lacking (Aristotle 2004, 10-11). Adam Smith thought that "The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature" as from the cultivation of one's capabilities (2007, 10). Smith claimed that the difference lies in the extent to which a person has developed his or her potential to create unique expressions of value. Thus, he believed that wealth generation is based on an individual's ability to fully develop his or her inherent creative abilities. Smith, like Aristotle, described individual well-being, the ability to create prosperity, and social flourishing in terms of both economic value theory and social value theory (Smith 2007, 132-133 & 135-136).

In this respect, empowerment involves enabling individuals to develop the capability to experience and to live in accordance with their core values – as is emphasized in Nobel Prize winner Amartya Sen's book *Development as Freedom* (1999, 10 & 30-32). However, freedom must be grounded in something that impels acting in ways that are directed toward a person's highest good or, in other words, impels action toward the highest value end that is worth pursuing. That is to say that empowering individuals to be able to enjoy the freedom – or their natural right – to experience their highest good requires encouraging them to act in accordance with a will empowered by being anchored in core values. Self-cultivation enhances will power in terms of strengthening the determination to shape actions into expressions of ultimate value. In this sense, "Will and power are [elemental] forms of affect and all other affects are only [manifestations] of it" (Nietzsche 1967, 366).

The desire to manifest one's most cherished *end values* as a tangible expression of the person's inner qualities is a powerful motivational force for creating value. Power results from learning to direct your actions toward manifesting the intrinsic value ends that you believe will create happiness – after which every living thing is supposed to be striving (Nietzsche 1967, 366). A person who is free to act by virtue of self-determination will strive to realize the state of existence that he or she desires most: happiness,

success, holistic well-being, self-actualization, good fortune (i.e., the feeling of being fortunate), or prosperity. (Rokeach 1973, 5). In other words, individuals are primarily striving to develop and exercise the power to experience what has ultimate value because they believe this will bring lasting happiness.

Conceptualizations of value creation also explain the extent to which there is an interface between theories regarding how to effectively manage wealth, how to improve the performance of organizations and institutions, fundamental notions of market activity, stakeholder theory, and how to improve the performance of the economy. This connection was emphasized with Western Civilization's fundamental principles of valuation and re-asserted when the social sciences began to gain ground as a distinct and viable academic discipline. In this respect, the value creation concept also proposes a means of establishing a complementary interface between the social sciences and social economics. That is to say, the value creation concept proposes a means for establishing a complementary interface between market activity that is in the best interest of social stakeholders and the type of social action that is best for enhancing market activity, the type of social exchange that is best for improving organizational performance, and for improving the performance of the economy. This makes the value creation concept a knowledge age framework for social action, social exchange, market exchange, and social economic activity – which prompts re-conceptualizing the established classical economic perspective on *The Nature and Causes of the Wealth of Nations*.

Social scientists assert that social action and social exchange are motivated by intrinsic values as well as instrumental material pursuits (Weber 1978, 14-15, 24-26, 36-38, & 40-43). This means that planning social economic strategies that are effective for both creating the good life and generating prosperity necessarily includes plans for creating social value – which involves a strategy for addressing and satisfying the total scope of the value interests of stakeholders (Durkheim 38-41 & 43-46). In this respect, initial proponents of a social psychological perspective on value creation stressed the significance of stakeholders in social economic planning by proposing that there is a connection between collective social action and value rationality. Planning any type of effective social action (including economic exchange) requires accounting for the role that collective social action and value rationality play in providing moral grounding and a stabilizing force for individual social actions (Aristotle 2004, 43; Jung 1973, 2919).

Western Civilization's fundamental principles of social psychology and social economics propose that there is a complementary relationship between value theory and planning from the perspective of the overall social sciences. This initially involved various attempts to reconcile the dichotomy between materialism and what has ultimate intrinsic value plus to reduce the impact of skepticism on endeavors to realize humanity's higher order values. Skepticism is a particular concern for value theorists because it proposes diminishing the analysis of intangible values in researching social action while accepting the prospect that the focus on tangibles can be empirically demonstrated to create the most beneficial outcomes for organizations, the economy, and society.

The earliest proponents of the social sciences as well as the earliest proponents of the value creation concept asserted that there are aspirations that people seek to fulfill – in addition to their endeavor to satisfy their material needs – that are motivated by higher order human values. The fact that these are not merely aspirations connected with material interests was substantiated by a popularized study conducted by the Federal Reserve Bank – with a team of researchers from the University of Chicago, MIT, and Carnegie Mellon University. The Federal Reserve Bank study revealed that knowledge workers are motivated by purpose and meaningfulness as well as the need to find fulfillment in their vocation, occupation, or profession. This is contrary to the assumption established during the rise of the industrial era – when it was expected that workers were willing to trade their labor for their salary even if they find the work to be unfulfilling.

However, knowledge workers are motivated, inspired, and energized by their higher order value commitments. Higher order human values also serve to elevate society and are considered essential for both social flourishing and a society's ability to offer its members "the good life". In this respect, higher order values inspire individuals to shape their life activities into expressions of what they value most. In addition, they inspire cultures to shape society in ways that reflect the values that enrich cultural life and add to the eco-aesthetic dimension of social life – with instrumental pursuits being important because they are the means to achieve higher order *value ends*.

From a social science perspective, individuals are motivated to create value because of their desire to outwardly manifest their innermost desires and their core values. In other words, they are motivated to create value in ways that portray quality and excellence, that display aesthetic sensibilities,

portray their character and power of will, and that increase the prospect of self-determination. A heightened creative ability is the outcome of integrating one's desire for self-expression with one's sense of what has intrinsic value – which is also connected with fundamental conceptualizations of the self-actualization concept (Fichte 2005a, 43-46 & 116-117). Creative genius is the outcome of a holistic approach to developing one's full potential. Creative genius results from integrating one's deeper creative impulse with one's mental powers and enterprising ability. Connecting with one's authentic self is considered tantamount to connecting with the source of what inspires creativity. In this sense the act of creating value is motivated by a natural impulse of an aesthetic nature – the urge to turn one's life into a beautiful experience (Foucault 1994, 97-100 & 261-262).

The fundamental conceptualizations of value theory, social economics, managing wealth, political economy, and social psychology stress that core values reflect a person's authentic self and if unfulfilled can cause psychological problems and can make laboring for pecuniary profit unfulfilling (Jung 1958, 3-4 & 46-48; also see Weber 1992, 123-124). In this respect, the value creation concept is rooted in fundamental social psychological conceptualizations of the human need to act in ways that reflect purpose and meaning. The initial scholars reflecting on the human experience from the perspective of value theory realized that values exist in a hierarchical order – with basic material values being instrumental in fulfilling higher order values (Aristotle 2004, 3-4; Scheler 1973, 86-100). In this sense, the value creation concept represents a holistic approach to developing human capabilities. It also provides an explanation of how to satisfy the full scope of human value needs, and it explains what is involved in improving an individual's life experience. Thus, creating value is regarded as the outward manifestation of an inward impulse to creatively express urges that are inherent in one's nature and with the endeavor to creatively express what has meaning for an individual.

The integration of the fundamental conceptualizations of value creation, what has intrinsic worth, and social economics provided a comprehensive conceptual framework for how society can provide its members with an enriching life experience – both in terms of what elevates society and generates material prosperity. This integrated framework was more highly refined with the development of the social sciences. This includes social science explanations of the significance of value creation in social action, market exchange, and social economic activity. In addition, this includes

recognition that individuals have a psychological need to develop and creatively express their unique individuality.

This chapter begins with a detailed explanation of the role that values play in developing one's capabilities, in self-cultivation, and in self-actualization. This includes an explanation of why an understanding of the difference between intrinsic values and instrumental means is important to self-cultivation. An intrinsic value is the ultimate *end value* that one desires most, while instrumental means are the stepping-stones that individuals believe are essential to achieving the things they desire. Instrumental means are the preliminary steps individuals believe to be necessary to reach their desired goal. This explanation is based on the fundamental principles of value creation which point out the problem with over emphasizing instrumental means as compared to focusing on intrinsic value ends. In addition, the chapter explains why an understanding of this difference is essential for eliminating the gap between what a person values most and what the person experiences. Thus, this chapter explains the principles underlying the value creation concept and their role in increasing the likelihood of experiencing the outcome one desires most. The chapter emphasizes the role that valuation plays in reaching the highest level of personal achievement, in leadership, in acting in a way that is in one's best interest, and achieving a person's highest good (Aristotle 2004, 37-45). This includes a comprehensive analysis of the connection between the fundamental conceptualizations of valuation and the role that values play in the ability to discern the right mode of conduct for experiencing one's desired outcome and for realizing what is most worthwhile devoting one's time and energy to.

Chapter one also explains the foundational social psychological and social economic principles involved with achieving exceptional levels of entrepreneurial-type creativity. The fundamental principles of value creation explain the role that an individual's values play in the ability to produce unique creative expressions of high quality, the role that core values play in enabling individuals to be successful in organizational and institutional management and leadership, and the connection between the values of society and conceptions of achieving the highest level of success. This includes an explanation of the role that the values of society play in the understanding of what it means to achieve prosperity. The chapter explains why there is a resurgence of the fundamental conceptualizations of value creation and how the reconsideration of value theory influences contemporary conceptualizations of personal and professional success, organizational