

Minding the business of business: tools and models for designing and measuring wealth creation

Minding the business of business: tools and models to design and measure wealth creation

By

Mariano L. Bernardez, PhD., CPT

Abstract

What is the business of business? How can planners and investors anticipate the true chances of failure and success of a business idea? This article describes a rationale for developing successful new business based on a simple, sensible idea: the business of any business is to make its clients successful enough as to continue purchasing and recommending its products and services and continue to add value to all stakeholders. Using a double-bottom line, triple top line business case and a wealth creation flowchart, the author shows how to demonstrate measurable benefit as the core of a business proposition and engineer the creation and delivery of value based on a carefully designed client experience. This new technology, illustrated with examples of multiple business incubated at the Sonora Institute of Technology (ITSON) , combines Roger Kaufman's Organizational Elements Model –OEM- with Dale Brethower's and Geary Rummler's Anatomy Of Performance –AOP- models in a simple, straightforward process and is supported by an extensive research bibliography.

About the Author

Mariano Bernardez, PhD., CPT is an international consultant specialized in developing new businesses.

During a 30-year career as a consultant to Arthur Andersen, Andersen Consulting, United Nations Development Program, manager and CEO in charge of running new startups and consulting firms in Latin America, Europe and the United States, Bernardez has helped Fortune 500, small business, multinational corporations, governments and NGOs in bringing about new businesses and organizations.

Bernardez is research professor and director of the International Institute for Performance Improvement at the Sonora Institute of Technology (ITSON) in Mexico, a PhD and MBA program focused in improving social and organizational performance by developing new companies.

He is author of four books on the specialty and multiple articles in peer-reviewed and professional publications.

He has been Board Director at the International Society for Performance Improvement (ISPI) and is a frequent presenter at ISPI, ASTD, IFTDO and AMA international Conferences.

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As thousands of concerned Americans learn each time a new housing, mortgage or stock market crisis strikes, wealth can be a fleeting proposition.

The continuous cycle of boom and bust that characterizes the dynamics of “creative destruction” that Joseph Schumpeter considered the hallmark and strength of entrepreneurial capitalism, makes it hard for investors, managers, consultants or employees using measurement tools based purely on conventional, backward-looking accounting or speculative stock performance indicators¹ to tell the *Googles* from the *Enrons*, the *Amazons* and *Grameens*² from *WorldComms*, *Fannie Maes* and *Freddie Macs*, or the *Newton Apples*³ from the *iPods*⁴ and *iPhones*..

Milton Friedman’s famous truism about the nature and “social responsibility” of business being to increase its profits (Friedman M. , 1970)–popularly misquoted as “the business of business is business”- leaves us without a clue about how to create those profits, where and how they are made and thus, having a better chance to differentiate between a sound business proposition and more or less elaborated versions of “field of dreams” or plain scams.

What is then “the business of business”? How can planners and investors anticipate the true chances of failure or success of a business idea? How can we better filter scams?

“Conventional wisdom” –as John K. Galbraith labeled business thinking inertia- may quickly answer that the business of business is “making money” –whether revenue, cash flow or actual profits- and the way to measure a business ultimate performance and success are profit and costs projections presented as conventional, single-“bottom line”⁵ business cases that monetize more or less wishful thinking based on generic assumptions about the future “business” usually presented as an extension of its past performance.

¹ All the companies mentioned in this paragraph were stock market “stars” showing exceptional P&L and balance sheets. Half of them still are. The other half went bankrupt precipitating huge financial crisis and investors’ losses

² Revolutionary bank created by 2006 Nobel Peace Prize Muhammad Yunus that lends under 20 dollar loans to 50 million clients in bottom-of-pyramid (BOP) markets (Yunus, 2003) (Prahalad C. ..., 2005)

³ Apple handheld device similar to the Palm PC that “flopped” in the market in 1984 and sent Apple stock spiraling down for many years. (Bernardez, Capital Intellectual: creacion de valor en la sociedad del conocimiento, 2008)

⁴ Apple handheld products based on technology similar to the Apple Newton device that dominated the market in 2002-2006 and sent Apple stock to historic heights (Bernardez, Capital Intellectual: creacion de valor en la sociedad del conocimiento, 2008)

⁵ “Bottom line” in financial lingo refers to the section of the profit and loss statement that reflect the net profit or loss before taxes. Following that model, business cases usually present a “bottom line” that reflects the yearly net result (profit or loss) , the “break even” point and calculates the Return on Investment –ROI- of the project. (Bernstein & Wilde, 2000)

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The problem with this approach –exemplified by the recurrence of Enrons, subprime mortgages and other scams window-dressed by these business cases’ deceiving financial calculations- is that financial figures fail to explain *the business* in the “business case”: how we create and deliver measurable and continuing value to the client, how much and how well our clients and their clients will do with our products and services. If a business case cannot explain convincingly these basic business concepts, a “*caveat emptor*”⁶ sign should “flag” investors about the risks they are assuming.

But when Wall Street and Madison Avenue join forces to sell and hype their “business as usual” propositions, this seldom happens.

Spaniards’ cultural wisdom summarized in a sharp expression the actual value of such conventional, purely financial business cases: “*el papel lo soporta todo*” (“*everything looks good on paper*”)

A more contemporary and accurate approach to define a business proposition comes from factoring, analyzing and monetizing research-based data about how products and services actually increase clients, clients’ clients and market’s revenues, resources and wealth, by adding a second “top line”⁷ that reflects clients and community revenue to the conventional income statement in order to determine where the money comes from and what kind of tangible benefits a client actually gets in exchange for what he/she paid.

This second top line measures not just profit extraction but value creation and renovation because it shows *how the company’s products and services actually add value to clients, replace the natural resources utilized and strengthen the markets and communities that consume them* –something that would have set off the alarms at Enron when the company traders started to shut down Californian power utilities to gouge prices and sustain unrealistic return goals based on a purely financial business case made to gamble the stock market⁸ -

The adoption of a double-bottom line business case methodology to plan and value business propositions is part of a 21st century business performance paradigm shift towards measuring wealth creation and maximizing social and environmental impact rather than just quarterly profit and short-term stock value⁹.

⁶ Latin for “Let the buyer beware”. Under the doctrine of *caveat emptor*, the buyer could not recover from the seller for defects on the property that rendered the property unfit for ordinary purposes

⁷ “Top line” in accounting and business lingo refers to the section of the profit and loss statement –usually at the top of the income statement- that describes total revenues and its sources. (Bernstein & Wilde, 2000) (Silbiger, 1993) (Bernardez, *Desempeño organizacional*, 2007)

⁸ Enron had created offshore entities, units which may be used for planning and avoidance of taxes, raising the profitability of a business. These entities made Enron look more profitable than it actually was, and created a dangerous spiral in which each quarter, corporate officers would have to perform more and more contorted financial deception to create the illusion of billions in profits while the company was actually losing money. (Ley Toffler, 2003) (Stiglitz, 2003)

⁹ Quarterly profit and stock value fluctuations often create a reinforcing “loop” that drives companies towards self-destructive short-term management practices. (Bernardez, *Rethinking the bottom line: Last frontier and first step for organizational change*, 1996)

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This fast-growing consensus among business leaders and path-breaking companies springs from a series of forward-thinking pioneers such as Roger Kaufman (Kaufman, Corrigan, & Johnson, 1969), Peter Drucker (Drucker, 1985), C.K. Prahalad (Prahalad & Hamel, 1994) (Prahalad & Hammond, 2002), Michael Porter (Porter & Kramer, 2002) , McKinsey Group (Davis, 2005, May 26) and the research about wealth creation produced by the World Bank (International Bank for Reconstruction and Development / The World Bank, 1998)

This new approach to designing and planning business performance focused on “doing well by doing good” is rapidly gaining momentum among top, class-defining companies in the form of 10-year strategic initiatives, from General Electric “Green Initiative” to BP’s “Beyond Petroleum” to Citibank’s “Micro financing to the poor” or Microsoft and Intel Low cost PC for emerging countries.

Stock market valuation indexes provide further evidence that “doing good”¹⁰ also seems to be the safest way for companies’ stocks to do well in the short and midterm¹¹: Figure 1 shows how Dow Jones Sustainability Index (DJSI)¹²-listed stocks of environmentally responsible, socially proactive companies have been outperforming consistently those of Dow Jones General Index (DJGI)¹³-listed, conventionally managed companies during the last 10 years.

¹⁰ When we refer in this article and method to “doing good” we are not talking about companies engaging in conventional philanthropy, but to actively deliver products and services created to produce measurable financial, economic or social benefits for specific clients, their clients and their markets such as to help them to pay for our products and services in the long run. We are not talking philosophy or politics: we are talking plain microeconomics.” Hence our motto: “What is good for GM’s client is good for GM”, *not the other way around*.”

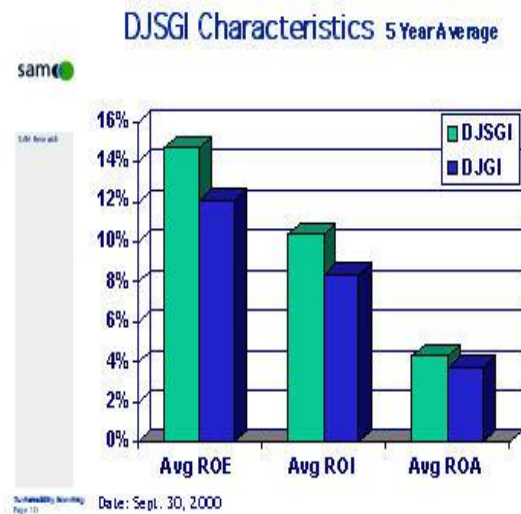
¹¹ The time span of a business case is usually 5 to 10 years (Afuah, 2004) (Bernardez, Presupuesto Mega, 2007)

¹² Corporate Sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments. Corporate sustainability leaders achieve long-term shareholder value by gearing their strategies and management to harness the market's potential for sustainability products. The DJSI measures and compares the performance of companies pursuing a sustainable strategy with the average Dow Jones General Index (DJGI). More information at: http://www.sustainability-indexes.com/07_html/sustainability/corpsustainability.html

¹³ Dow Jones General Index reflect the performance of conventionally-managed companies, based on purely financial indicators.

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Figure 1: Dow Jones Sustainability Index outperforms Dow Jones General Index (2000-2005)



Leading DJSI companies must qualify in the following areas:

Strategy: Integrating long-term economic, environmental and social aspects in their business strategies while maintaining global competitiveness and brand reputation.

Financial: Meeting shareholders' demands for sound financial returns, long-term economic growth, open communication and transparent financial accounting.

Customer & Product: Fostering loyalty by providing a compelling client experience.

Governance and Stakeholder: Setting the highest standards of corporate governance, stakeholder engagement, corporate codes of conduct and public reporting.

Human: Managing human resources according to a sound, credible human capital plan.

“What is good for General Motors clients is good for General Motors” – Not the other way around

Sustainable, forward-thinking companies using double-bottom line business cases not only consider societal and environmental contributions as risk-reducing strategies or philanthropy, but as part of their core strategy for making money and maximizing their economic performance.

Even in the poorest markets, according to C.K. Prahalad: *“by stimulating commerce and development at the bottom of the economic pyramid, multinationals could radically improve the lives of billions of people and create a more stable, less dangerous world. Achieving this goal does not require multinational corporations to spearhead social-development initiatives for charitable purposes. They need only to act in their self-interest. Because these markets are in the earliest stages of economic development, revenue growth for multinationals can be extremely rapid. MNCs can also lower costs, not only through low-labor cost, but by transferring operating efficiencies and innovations to serve their existing operations in developed markets.”* (Prahalad & Hammond, *Serving the world's poor, profitably*, 2002)

The first step in understanding business is focusing in the sources of wealth creation outside the organization and understanding the way clients and markets benefit and make a profit from products and services.

No company can do well when its customers and clients don't. No product or service can consistently make money by harming or impoverishing their end users and consumers.¹⁴

¹⁴ Crime, substance abuse and prostitution can arguably be considered lucrative in spite of the damage they cause to their clients and customers health, wealth and life. Studies from opposite social and political perspectives on the incidence

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As obvious as this concept might seem to customers and entrepreneurs, it is usually hard to grasp for managers trained in the conventional “MBA” paradigm. (Mintzberg, 1994)

At the “seed” stage of business creation, most entrepreneurs tend to develop business plans, biased to one of their particular strengths – product, profits, clients, organization - to the detriment of other dimensions that might be critical for organization’s survival and success..

Large, well-established companies, on the other hand, often produce an overpowering “planning inertia” that presses planners to “play safe” by repeating “proven” business models, products and services well past their prime¹⁵ instead of engaging in vital but apparently riskier innovation¹⁶.

Peter Drucker pointed out that the biggest risk for business was to keep social realities as “externalities¹⁷” out of the business formula, because *“the social dimension is a survival dimension. The enterprise exists in a society and an economy. Within an institution, one tends to assume that the institution exists in vacuum. And managers inevitably look at their business from the inside”*. (Drucker, *The new realities*, 1988, p. 37)

The first step in finding “the business” of our business, then, is to *look outward*, outside the organization, toward its clients, market, value chain, business ecosystem and environment and ask the simple question: *“how can we ensure that our customers and clients will be able to continue purchasing, using and recommending our products and services?”*.

A double-bottom line business case

Following Roger Kaufman’s *Organizational Elements Methodology* –OEM- (Kaufman, 2006), we start developing our double-bottom line business case by identifying three levels of results: we must first *define and quantify the benefits of their project for the client, market and community* (Mega level), then *define products and services* (Micro level) that our organization –and its allies in the value chain¹⁸ and the business

of criminal business on criminals’ income and property value , coincide in demonstrate, however, that these type of businesses obtain also diminishing returns in terms of income and health that keep them failing at the highest rates and their workers struggling in the lowest income brackets. (Gladwell, 2002) (Sowell, 2006) (Ehrenreich, 2001)

¹⁵ Peter Drucker masterfully summarized this Fortune 500s “planning inertia” by coining the aphorism *“God condemns to 40 years of success those organizations he wants to destroy”* (Drucker, *The new realities*, 1988)

¹⁶ Conventional marketing has done a lot of harm by **warning against** introducing “new products to new markets” (traditionally called “the death square”). A review of a century of business history (Chandler, 1990) shows that **successful companies do exactly that: introducing new products to new markets**. GM –on the other hand- followed that fateful “conventional wisdom” advice shelving the electric cars, ignoring hybrids and waiting for 150 dollars oil to react.

¹⁷ According to conventional accounting doctrine, “an externality occurs when an economic activity causes external costs or external benefits to third party stakeholders who cannot directly affect an economic transaction” (Bernstein & Wilde, 2000) Treating social realities as “externalities” unrelated to business results turns profits into “pennies from heaven”

¹⁸ We combined Geary Rummmler’s concept of “value creation chain” that with Kaufman’s OEM to clarify how products and services from different organizations better coordinate and synergize to effectively add value to clients, clients’ clients, investors and the market in general. We explain the basics of such methodology ahead in this article. A more thorough description can be found in Rummmler’s two books (Rummmler & Brache, *Improving performance: how to manage the white space in the organization chart*, 1995) and (Rummmler, *Serious performance consulting*, 2004) as well as in Brethower’s *Performance Analysis* (Brethower, 2007), Maria Mallott’s *Paradox of Organizational Change* (Mallott, 2003), Adam

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ecosystem¹⁹- must deliver to its clients in order produce those benefits for them and finally *define how the organization will, in turn, capture a part of those benefits as revenues* (Macro level), thus establishing a solid revenue stream for the new business.

In helping entrepreneurs and investors to plan new business at the “seed” stage or to define performance improvement projects for existing ones at the Sonora Institute of Technology (ITSON) business incubation program²⁰, we use a three-layered business case tool.

To illustrate the methodology, we will use as an example an actual three-level, double bottom line business case we developed for a business intelligence center in Mexico.

Trans-Pacific Center –TPC- is a spinoff of the Sonora Institute of Technology that enables Sonoran companies to export to Asian and Pacific coast markets –included the West Coast of the United States- by providing market research and reports, professional assistance on export-import procedures, coordinating support from other specialized Sonoran centers –such as laboratories specialized in food and animal health testing to meet international standards- and –last but not least- by helping local businesses find international clients that are the “right match” to each exporting company’s competences and competitive advantage.

The TPC seeks not only to maximize each client company’s Macro-level results – revenues, profit, market positioning, market share- but also to produce positive Mega-level results, measured as benefits for the local communities –jobs, market growth, tax revenue -, as shown in Table 1, Mega “top line” section.

Afuah’s Business Models (Afuah, 2004) and my last book, Capital Intelectual (Bernardez, Capital Intelectual: creacion de valor en la sociedad del conocimiento, 2008)

¹⁹ A business ecosystem can be defined as a systemic integration of different organizations that support each other playing complementary roles in order to serve a market or community. (Iansiti & Levien, 2004). According to Bernardez, business ecosystems can –and must- be assessed as social capital and cooperatively engineered among multiple partnering organizations using this business case methodology and Geary Rummier’s and Dale Brethower’s Anatomy Of Performance –AOP- design tools . (Bernardez, Capital Intelectual: creacion de valor en la sociedad del conocimiento, 2008)

²⁰ More information about this unique PhD program at the Sonora Institute of Technology (ITSON) that graduates business instead of individuals can be found at www.piionline.org and in (ITSON - Sonora Institute of Technology, 2007) and (Rodriguez Villanueva & Guerra-Lopez, 2005)

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Table 1: Double bottom-line business case (Bernardez, Presupuesto Mega, 2007)

BUSINESS INTELLIGENCE CENTER (TRANS PACIFIC)						
US Dollars						
MEGA "TOP LINE"	2007-2011	2007	2008	2009	2010	2011
Direct jobs	90	10	15	20	20	25
Ratio Indirect jobs/Direct Jobs		0.5	0.5	0.5	0.4	0.4
Indirect jobs	200	20	30	40	50	60
Annual average income Direct Jobs	5,362	5,365	5,368	5,371	5,374	5,377
Annual average income Indirect Jobs	5,362	5,365	5,368	5,371	5,374	5,377
Direct Jobs "ripple effect" revenue	483,495	53,650	80,520	107,420	107,480	134,425
Indirect Jobs "ripple effect" revenue	1,074,500	107,300	161,040	214,840	268,700	322,620
Tax revenue for State and Community	303	9,090	13,635	18,180	21,210	25,755
Exports revenue	47,019		10,909	11,454	12,027	12,629
MEGA RESULTS	1,605,014	170,040	266,104	351,894	409,417	495,429
MACRO "TOP LINE"	2007-2011	2007	2008	2009	2010	2011
Products & services revenue						
Research		3,600	4,200	4,800	5,400	6,000
Business plans		3,000	3,500	4,000	4,500	5,000
Special projects		2,500	3,750	3,750	6,250	7,500
Stages & exchange						
Other ITSON services (non BIC programs)		10,022	13,559	21,232	29,850	30,669
MACRO RESULTS	173,082	19,122	25,009	33,782	46,000	49,169
DOUBLE TOP LINE (MEGA+MACRO)	1,778,096	189,162	291,113	385,676	455,417	544,598
MICRO	2007-2011	2007	2008	2009	2010	2011
Products & services delivered						
Research	80	12	14	16	18	20
Business plans	80	12	14	16	18	20
Special projects	95	10	15	15	25	30
Stages & exchange	10	2	2	2	2	2
Other ITSON products & services	300	40	50	60	70	80
TOTAL MICRO OUTPUT	565	76	95	109	133	152
COST	2007-2011	2007	2008	2009	2010	2011
Initial investment	45,454	45,454				
Non-ITSON financial support	1,500	1,500	1,500	1,500	1,500	1,500
Licenses	1,000	1,000				
IT equipment	2,000	2,000				
Operational costs		3,600	3,602	3,604	3,606	3,608
Stages & exchanges	2,250	4,500	4,500	4,500	4,500	4,500
TOTAL COST	90,474	58,054	8,102	8,104	8,106	8,108
CONVENTIONAL BOTTOM LINE		-58,054	-41,147	-32,376	-20,160	-16,993
DOUBLE BOTTOM LINE		131,108	181,060	283,009	377,570	447,309
CONVENTIONAL ROI (MACRO/COST)		-1.28	-0.91	-0.71	-0.44	-0.37
SOCIAL ROI (MEGA+MACRO/COST)		2.88	3.98	6.23	8.31	9.84

By measuring the social and market impact of the *Trans-Pacific* business intelligence center over a five-year period, this three-level business case helps entrepreneurs make their case in order to obtain government and community support, attract angel investors, inspire staff and align all that the new organization produces and delivers with external, value-adding results.

The “top line” presents three different and related tiers:

A *Mega “top line”* –shown in Table 2-, reflects benefits and revenue generated by Trans Pacific business intelligence center to its clients, market and community in Sonora,

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Mexico: direct and indirect jobs created, direct and indirect jobs “ripple effect²¹” revenue for the local market, exports revenue for the local companies assisted by the TPC and tax revenue for government and community derived from TPC’s clients increased business.

Table 2: Mega “top line”

BUSINESS INTELLIGENCE CENTER (TRANS PACIFIC)						
US Dollars						
MEGA "TOP LINE"	2007-2011	2007	2008	2009	2010	2011
Direct jobs	90	10	15	20	20	25
Ratio Indirect jobs/Direct Jobs		0.5	0.5	0.5	0.4	0.4
Indirect jobs	200	20	30	40	50	60
Annual average income Direct Jobs	5,362	5,365	5,368	5,371	5,374	5,377
Annual average income Indirect Jobs	5,362	5,365	5,368	5,371	5,374	5,377
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Tax revenue for State and Community	303	9,090	13,635	18,180	21,210	25,755
Exports revenue	47,019		10,909	11,454	12,027	12,629
MEGA RESULTS	1,605,014	170,040	266,104	351,894	409,417	495,429

This “social” top line serves two critical purposes: it indicates, in the first place, whether TPC clients will be able to pay for TPC services, providing a realistic estimate of its actual “market size”, based not on “wishful thinking” or projecting generic demographics, but on the level of business to be generated by specific, targeted TPC clients’ thanks to TPC’s products and services.

Additionally, this “Mega” top line shows local investors –“profit” (such as angel or venture capital) or “nonprofit” (such as local and state government)- the specific return on their investment in the TPC project.

A Micro “top line” –shown in Table 3-, reflects the products and services that both Trans Pacific Center and its allies²² plan to deliver to its clients in order to produce the impacts and benefits described in the previous Mega-level top line results tier.

Table 3: Micro results “top line”

MICRO	2007-2011	2007	2008	2009	2010	2011
Products & services delivered						
Research	80	12	14	16	18	20
Business plans	80	12	14	16	18	20
Special projects	95	10	15	15	25	30
Stages & exchange	10	2	2	2	2	2
Other ITSON products & services	300	40	50	60	70	80
TOTAL MICRO OUTPUT	565	76	95	109	133	152

²¹ Based on previous research, we estimate “ripple effect” ratios on the local economy as a function of direct and indirect jobs’ spending and of spending (and revenue) done by other business supplying the new ventures.

²² Such as animal and food health labs and other providers of specific services for TPC –as tech support, languages, foreign service, etc.-

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The Micro top line helps planners to define products and services *as means* to help clients achieve specific results –one of the key requirements for building a solid value proposition for the client- (Anderson, Narus, & van Rossum, March 2006).

Relating *products and services targets* shown in the Micro “top line” to *client’s success and performance indicators* –shown in the Mega “top line”- sets the basis for realistic, competitive bidding and pricing –because measuring our company’s products or services’ benefits in terms of clients’ specific results is critical to demonstrate the ***Return to our clients on their Investment in our products and services.***

The Micro top line not only reflects products and services produced or delivered by TPC, but also those provided by allies, facilitating synergies, partnerships and alliances.

The Micro top line is expressed in product and services units –to be valued at the Macro “top line” level according to its ROI-based pricing²³

A Macro “top line” –shown in Table 4- calculates the benefits for each company –in this case Trans-Pacific Center (TPC)- of providing products and services to the customers and clients identified in the Mega “top line” part of the chart.

Table 4: Macro “top line”

MACRO "TOP LINE"	2007-2011	2007	2008	2009	2010	2011
Products & services revenue						
Research		3,600	4,200	4,800	5,400	6,000
Business plans		3,000	3,500	4,000	4,500	5,000
Special projects		2,500	3,750	3,750	6,250	7,500
Stages & exchange						
Other ITSON services (non BIC programs)		10,022	13,559	21,232	29,850	30,669
MACRO RESULTS	173,082	19,122	25,009	33,782	46,000	49,169
DOUBLE TOP LINE (MEGA+MACRO)	1,778,096	189,162	291,113	385,676	455,417	544,598

Although most of these Macro-level benefits for TPC are monetized as revenues from products and services –or other forms of revenue such as licenses, franchise fees, copyrights, rent and other forms of intellectual, financial or structural capital rent – our Macro “top line” might include qualitative indicators of TLC’s benefits, such as market share, market share growth, returns on investment (ROI), equity (ROE) or assets (ROA), client satisfaction and others.

Finally, following the aggregated costs column, ***a double bottom-line*** –shown in Table 5- reflects the net Social result (Mega + Macro-Costs) and the net Business result (Macro-Costs), thus allowing us to calculate the Social Return on Investment (Social ROI) and the Conventional Return on Investment (Conventional ROI), determining the “break even” points for the organization and for its clients and market.

Table 5: Double bottom line

²³ ROI-based pricing defines price as a function of the Return on Investment for the client shown by the relation Measurable Benefit for the Client (revenues, costs reduction) –Mega level- minus production and delivery Costs minus Profit Margin for the company. A ROI-based pricing revenue model helps TPC to focus in maximizing the actual value delivered as the key to maximize its own long-term (five year) revenue growth and profitability. (Bernardez, Tecnología del desempeño humano, 2006) (Afuah, 2004)

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COST	2007-2011	2007	2008	2009	2010	2011
Initial investment	45,454	45,454				
Non-ITSON financial support	1,500	1,500	1,500	1,500	1,500	1,500
Licenses	1,000	1,000				
IT equipment	2,000	2,000				
Operational costs		3,600	3,602	3,604	3,606	3,608
Stages & exchanges	2,250	4,500	4,500	4,500	4,500	4,500
TOTAL COST	90,474	58,054	8,102	8,104	8,106	8,108
CONVENTIONAL BOTTOM LINE		-58,054	-41,147	-32,376	-20,160	-16,993
DOUBLE BOTTOM LINE		131,108	181,060	283,009	377,570	447,309
CONVENTIONAL ROI (MACRO/COST)		-1.28	-0.91	-0.71	-0.44	-0.37
SOCIAL ROI (MEGA+MACRO/COST)		2.88	3.98	6.23	8.31	9.84

The relation between Mega results –benefits for the client and its clients’ clients, market and community- and these Macro results –benefits for our organization (in this case TPC)- reflect business long-term viability: if the Mega results –return to clients, market and community- are equal or below (\leq) the Macro results –benefits for the organization- it is likely that we have a non-sustainable business proposition²⁴.

*Macro results (organization’s ROI) are a function of Mega results (clients, clients’ clients, market and environment ROI)*²⁵

Conversely, a non-profit organization –such as TPC in this case- might find useful setting Macro-revenue goals that ensure it will be able to self-finance its continuing value adding to clients and community. In our example, TPC managers must “return to the drawing board” to improve their Macro results –either through increasing revenues or by increasing public funding –government or angel capital- based on its proven social ROI.

Probing the “business” of the business case: engineering wealth

Although the double bottom-line business case methodology presented so far represents a huge improvement in reducing investors’, organizations’ and communities’ investment exposition to risk by disclosing and measuring benefits –and/or “external costs”- of a business project for clients, clients’ clients and society, we still have to overcome the “Spanish objection” and make sure that the new business is as good in reality as it looks on paper.

In order to do so, we will use an extension of Geary Rummler’s and Dale Brethower’s *Anatomy of Performance –AOP-* process design methodology (Brethower, 2007) (Rummler & Brache, 1995) (Rummler, 2004) to disclose and analyze the value creation process proper and make sure that we follow Warren Buffett’s two golden rules:

²⁴ Imagine factoring the costs of healthcare created by a tobacco company to its clients and consumers, in terms of emphysema, cancer treatment, chronic illness and loss of quality of life –beside of life itself-. All those costs –ignored by conventional business cases- should be reflected in our Mega “top line” as **losses** or social costs, warning investors about the level of risk of such a business. Sooner or later, Mega (client) losses become Macro (business) losses, in the form of class action suits, compensations for damages, higher insurance. Take a look a the cases of tobacco, construction (asbestos), oil drilling (spillovers) and you might get a glimpse of what conventional business cases ignore at investors’ own peril.

²⁵ That “nested”, reciprocal ROI at the core of value creation is the “good” we talk about when we talk about “doing well by doing good”. The same Adam Smith’s “self-interest” principle that guides “creative destruction” at the macroeconomic level must guide the “double bottom line” at the microeconomic level. Reciprocal ROIs operate as a compass to survive.

Minding the business of business: tools and models for designing and measuring wealth creation

1. *“If you don’t understand the business –be it a newspaper or a software firm- you cannot value the stock”*
2. *“Study prospects –and their competitors- in great detail. Look at real data –not at analysts’ summaries-. Trust your own eyes.”*
(Buffet, 2007) (Lowenstein, 1995)

Sharing with Geary, Dale and Roger Kaufman an even larger skepticism towards purely financial business cases, we went three steps beyond the “eye inspection” proposed by Buffett –still a key “due diligence” – and worked on a methodology that helps to magnify, design and test the “missing link” between the “strategic plan”²⁶ and the tactical and operational plans.

Let’s break down the overall process in smaller, more specific steps:

Step 1: Identify benefits –build a three-tiered “top line” (Prahalad & Hamel, 1994)

*“All value comes from outside the organization.
Inside the organization there are only costs”*
(Drucker, Management: tasks, responsibilities, practices, 1973)

Roger Kaufman used to say that the only way to guarantee an organization’s long term survival and success is to make sure that the organization continues adding value to its clients and stakeholders.

Enron, World Comm and the current subprime mortgage crisis are stern reminders that *“if an organization doesn’t add value to its clients, it is likely that it might end subtracting it”*. (Brethower, 2007)

Value doesn’t grow out of spreadsheets, no matter how cleverly financial “Wizards of Oz” manipulate them: it comes from clients, markets and society.

Serious business planning can and must capture and relate all three levels of results – Mega, Macro and Micro-.

During his consulting engagements, Peter Drucker used to hammer relentlessly CEOs and managers with a single, simple question: *“what is our business?”* (Drucker, 1973)

That question helped business leaders to continually make sure that the organization was adding value to clients and customers as a first requirement for its survival and prosperity.

In his seminal 1994 book *“Competing for the future”*, C.K. Prahalad went a step beyond Drucker, asking strategic business planners to look five to ten years ahead into the future,

²⁶ Following Kaufman’s advice, we consider defining the “top line” results based on a needs assessment the key components of strategy. Most companies label “strategic plan” to 100-pages, bloated documents which include tactical and even operational steps at the expense of solid foundation for their Mega, Macro and Micro results’ definition.

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beyond current or past success formulas, in order to discover and seize the sources of wealth –actual value delivered to external clients and society- this additional question: “*what markets and clients will we be serving in five to ten years?*” (Prahalad & Hamel, 1994)²⁷

In order to answer Drucker’s and Prahalad’s key strategic questions, our double-bottom line business case “top line” must reflect the three levels of results: *benefits for the client, market, community* (Mega) expressed as measurable performance results, *products and services* (Micro) that our organization must deliver to produce those results and finally, *revenues and non-monetized benefits* that our organization will receive (Macro) from clients, market and community in exchange for those products and services in order to be able to continue providing them, survive and grow²⁸.

Table 6 shows examples and sources of the three levels of results.

Table 6: Mega, Macro and Micro results in a “nutshell”

Performance level	Primary beneficiaries	Measured by –Key Performance Indicators (KPI)-
Mega	Society, economy	Roger Kaufman’s Minimal Ideal Vision indicators (Kaufman, 2006)
	Clients	
	Clients’ clients	Social indicators (jobs, ripple effect)
	Stockholders, investors	Social ecosystem
	Market	Market growth
		Direct and indirect client’s performance (revenue, profit, productivity, cost savings)

²⁷Back in 1994, Prahalad stressed that “***the organizational transformation challenge faced by so many companies today is, in many cases, the direct result of their failure to reinvent their industries and regenerate their core strategy a decade ago.***” (Prahalad & Hamel, *Competing for the future*, 1994). 14 years later we can see how many decisions on that decade have triggered the decline of industry leaders such as AOP, Sun or Microsoft.

²⁸ This is a powerful reason for non-profits to utilize a double-bottom line accounting and business modeling system. While for-profits tend to forget the client as their primary commitment and source of value(Mega), non-profits tend to forget their revenue stream and returns (Macro) that are essential to *continue* doing good. As Senator Sam Rayburn said to those complaining of the time spent in campaigning: “*in order to be a good senator, you must first continue being a senator*”

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Micro	End users	Products
	Clients	Services
		Delivery

Macro	Revenue for our organization and its stakeholders	Revenue
		Profit
		Market share
		Positioning, differentiation
		Attractiveness to financial, human and intellectual capital

Think Mega: searching for the business of business

Business propositions may start from very different points: they can come from a passion for a product, service or technology –like General Electric, Starbucks, Apple-; from the intellectual chemistry of a talented team –think of 3M, Hewlett-Packard, Google- or from specific core competencies –as in the cases of UPS, Dell, Amazon or eBay-. Business ideas can be revealed through flashes of rapturous inspiration –think of Mozart, Disney, MTV, Scotch™ tape, Alexander Fleming- or be the result of laborious, systematic research and incremental improvement processes –as in the case of Edison, Marconi, Ford or Boeing-.

But no matter where we start from or how we got there, producing the first definition of our project can be as frightening and stressful as staring at a blank canvas unless we have direction and tools.

In our experience helping a few hundreds of new businesses at the “drawing board” stage, we found four useful sources of “inspiration”:

1. *Starting from a common, Minimal Ideal Vision (MIV) of the future*, as proposed by Roger Kaufman. The Minimal Ideal Vision is a device based on collected research that identifies the common characteristics of the world people all over the world desires for the children of the future. All stakeholders must agree and commit to a shared vision based on the MIV.

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You may use the MIV indicators summarized in Table 7 to derive social indicators in different areas such as self-sufficiency, well-being, security, safety, health, education or sustainability. The MIV-based indicators in your business case, however, must focus on actual, specific clients, markets and communities targeted by your business model²⁹.

Table 7: Minimal Ideal Vision (Kaufman, 2006)

<p><i>There will be no loss of life or elimination of the survival of any species required for human survival. There will be no reductions in levels of self-sufficiency, quality of life livelihood, or loss of property from any source including:</i></p> <ul style="list-style-type: none"> ✓ war and/or riot and/or terrorism ✓ shelter ✓ unintended human-caused changes to the environment including permanent destruction of the environment and/or rendering it non-renewable ✓ murder, rape, or crimes of violence, robbery, or destruction to property ✓ substance abuse ✓ disease ✓ pollution ✓ starvation and/or malnutrition ✓ child abuse ✓ partner/spouse abuse ✓ accidents, including transportation, home, and business/workplace. ✓ discrimination based on irrelevant variables including color, race, creed, sex, religion, national origin, age, location ✓ Poverty will not exist, and every woman and man will earn as least as much as it costs them to live unless they are progressing toward being self-sufficient and self-reliant ✓ No adult will be under the care, custody or control of another person, agency, or substance: all adult citizens will be self-sufficient and self-reliant as minimally indicated by their consumption being equal to or less than their production. <p><i>Consequences of the Basic Ideal Vision: Any and all organizations--public and private--will contribute to the achievement and maintenance of this Basic Ideal Vision and will be funded and continued to the extent to which it meets its objectives and the Basic Ideal Vision is accomplished and maintained.</i></p> <p><i>People will be responsible for what they use, do, and contribute and thus will not contribute to the reduction of any of the results identified in this basic Ideal Vision.</i></p>	<p>There is a “gap” between what it is and what it should be</p>
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²⁹ The scope of the business case sample must be targeted to real clients in order to maximize control over its variables and thus, validity and reliability to make it replicable in a larger scale.

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2. *Check Social Progress Opportunities (SPO) in current research* is another approach, based on analyzing current research on social trends and changes in different societies.

You might want to check Table 8 summary of several studies on US, OECD and BOP countries to identify possible indicators for your Mega-“top line”.

Table 8: Social Progress Opportunities (SPO) and Technology Trends and Breakthroughs (TTB) recent research summary

Microtrends (Penn)	Megatrends (Toffler)	Flatteners (Friedman)	BOP (Pralhad)	Small Business (Barreto, SBA, Bernardez)
1. Commuter couples	1. Wealth, not just profits	1. Globalized market, free trade	1. Price-performance	1. Planning. Not winging it
2. Extreme commuters	2. Three Waves, three worlds (First: Agrarian, Second: Industrial society, Third: Information society)	2. WWW goes public	2. Hybrid solutions	2. Challenge CW
3. Stay-at-home workers	3. Clash of speeds	3. Work Flow software	3. Scalable	3. Build niche, differentiation
4. Stained glass ceiling breakers	4. Leaders & laggards	4. Open-Sourcing	4. Eliminate resource wastage	4. Avoid copying and “benchmarking”
5. Sun-haters	5. Inertia	5. Outsourcing	5. Functionality options	5. Manage and position in ecosystem
6. Long attention spanners	6. Hyper speed	6. Off shoring	6. Process innovation	6. Manage “stages” of development
7. Second-home buyers	7. Synchronization	7. Supply-chaining	7. Deskilling	
8. Smart Child left behind	8. Future of job	8. In sourcing	8. Consumer education	
9. LAT couples (UK)		9. In-forming	9. Hostile environments	
10. French teetotalers		10. Digital, Mobile, Personal, Virtual	10. User-interfaces	
			11. Accessibility	
			12. Rapid evolution	

We have briefly summarized several recent studies, covering social Micro-trends –such as Mark Penn’s findings in US and OECD³⁰ countries (Penn & Zalesne, 2007) , focusing on new market “niches”- together with still valid Alvin Toffler’s classical and recent studies which focus on larger social trends and markets. (Toffler, 1984) (Toffler & Toffler, 2006)

Table 8 also includes Thomas Friedman’s technology-inspired “flatteners” and globalization effects (Friedman T. , 2005) –another factor to keep in mind when our business case clients are international or our partners and supply chain global-

³⁰ Organization for Economic Co-Operation and Development: established in 1961, this international organization includes 31 most developed countries in the world –US, Europe and some emerging economies such as China, Brazil, Mexico and Russia-

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as well as C.K. Prahalad’s revealing case studies on Bottom of Pyramid (BOP)³¹ (Prahalad C. ..., 2005) emerging economies success factors.

Finally, we also considered research about small business development critical indicators, both for the US (Barreto & Wagman, 2007) and for Latin America and emerging economies around the world. (Bernardez, 2007) (Bernardez, 2008)

3. **Consider Technology Trends and Breakthroughs (TTB).** Studies and research on technological changes and technologies actual and potential impact on social or environmental indicators can provide –that we also summarized in Table 8- can provide another valuable source for useful Mega “top line “indicators
4. **Review your own Customer Experience (CE).** Following Thomas Watson Sr.’s³² advice: “*everything starts with a client*” (Watson Jr., 1990) , we should remember that if our organizations, products and services are means to clients’ ends, we must also draw into actual customer experience –both our own or others’- in order to find another source of value indicators for our Mega “top line”.

The impact of food and food experience in variables such as blood pressure, weight, bone density, dental health and psychological well-being (or stress) are translated into economic value in terms of costs of different treatments, food waste or delivery time.

Mega-level, social indicators such as health, survival and well-being can be easily monetized if we *calculate the associated costs*³³ of medical treatment, medicine, loss of productive time, lower educational achievement and *calculate them as savings* or benefits for the client.

Table 9 summarizes the findings of different studies on the impact of different kinds of meals and food experience on professional women and their children.

Table 9: Client experience – Prepared Meals Example - (Smith & Wheeler, 2002) (Bernardez, 2008)

Key attribute	Performance indicators ³⁴	Value provided to client
Health	Normal blood pressure	\$ 300 medicine/year
	Healthy weight	\$ 1,200 healthcare/year
	Normal Bone density	\$ 500 risk insurance/year

³¹ Term coined by C.K. Prahalad to refer to the markets of 4 billion people living with under \$ 1,500 yearly income (Prahalad & Hammond, Serving the world's poor, profitably, 2002)

³² IBM's founder

³³ What W. E. Deming called “the cost of non-quality” (Deming, 2000). Only when we calculate the cost of the problem can we estimate the value of the solution

³⁴ You can also use this Table to identify Micro-level indicators about the features and performance of your products and services. Keep in mind to start from the “high-level” Mega indicators, which **refer to client benefits rather than to product & services features.**

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	No caries, dental problems	\$ 1,500 dental care/year
Fun	No guilt Fun to serve, to eat Fun cooking	\$ 200 antidepressants/year Quality of life Family life
Time	Time to eat together and enjoy Zero or less than 5 minutes preparation	\$ 200 fast food/junk food Quality of life Children care?
Pricing	Saving waste Saving time Saving healthcare costs	\$ 5,000 waste/year \$ 500 gas, cabs, delivery \$ 1,200 healthcare/year
Convenience	Saving ordering time Saving carry out time	\$ 500 gas, cabs, delivery

Think of people, communities, clients and situations that matters the most to you and / or your existing organization. Think of those you know the most, learn more about them, step in their shoes, and experience reality from their standpoint.

Step 2: Define a business value proposition for your primary and secondary clients

Identifying Mega results is critical to define a value proposition for the client that answers two questions that check your business fundamentals:

1. How can we *guarantee our clients' continued success*?
2. How can we *make sure our clients will be able to continue choosing and paying* for your products or services?

But in order to build our double bottom-line business case, we must go further.

A true value proposition for our client must not just identify benefits or compare and find generic advantages over competing alternatives, but also *demonstrate measurable, monetized return on investment to the client* based on its own specific requirements. (Anderson, Narus, & van Rossum, March 2006)

In order to do so, such value proposition must address questions 1 and 2 and focus on those benefits that are not only advantages for our product or service, but to do so in terms that address our target clients' specific requirements.

Table 10 illustrates another example of business value proposition, addressing the needs of professional women with children in a Mexican fast-growing town.

Defining needs as *gaps between current and desired results* (Kaufman, 2006) , we determined that the causes of the gaps in nutrition, health and well-being of young professional mothers of two have a yearly cost to clients –mothers- and “clients’ clients”

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–their children- of average \$ 9,300 a year, aside from qualitative factors such as stress, guilt and deterioration of family life³⁵.

Table 10: Business case value proposition for the client (Anderson, Narus, & van Rossum, March 2006)

Client	Current situation	Desired situation	Gap (causes)	Mega: value for the client	Micro: Products or services to close gap	Macro:
Women, professional, 20-45 years with children N=12,000 Target= 50% 6,000	Poor diet, lack of time, “microwave diet”, adverse health effects in client (women) and client’s “clients” (children) Overweight High blood pressure Loss of bone density Dental problems	Balanced diet, more time for at home meals, enjoy preparation Avoid adverse health effects: Normal weight, blood pressure Normal bone density Good dental health	Lack of time Waste of costly ingredients “Fast food” Fast eating (stress) Bad eating habits Lack of nutritious ingredients Lack of cooking skills Stressful cooking experiences	(Cost of the problem) Food waste: \$ 5,000 year Dental care: \$ 1,500 / year Healthcare woman: \$ 600 year 2 children : \$ 1,200 Bone density-related incidents (fractures) over 5 years: \$ 1,000 Total= \$ 9,300 year	Consists of: Organic, scientific diet prepared food Health menus online cooking workshops Additional cost (products, services + “premium” price) = \$ 7,000 Client savings = \$ 2,300 a year	Margin= 15% 1,050 x client x year x target (6,000)= \$ 630,000 net revenue

In order to properly resolve the causes of the gaps, an exploration of existing research literature indicates that we must combine a mix of products –such as organic food, healthy and gourmet-quality preparations and different balanced diets for different age, gender and activity requirements- with services –such as online menus, “fun cooking” and “cooking for (and with) the family” experiences and health indicators progress self-assessment checklists-.

³⁵ Which in turn could also be monetized for a longer than 5-year return period, if we consider what research shows in terms of learning disabilities, family violence and other behavioral problems down that road. Monetization depends on (a) reliable research and (b) the length of our business case “time series”. (Hamilton, 1994) (Menard, 2002)

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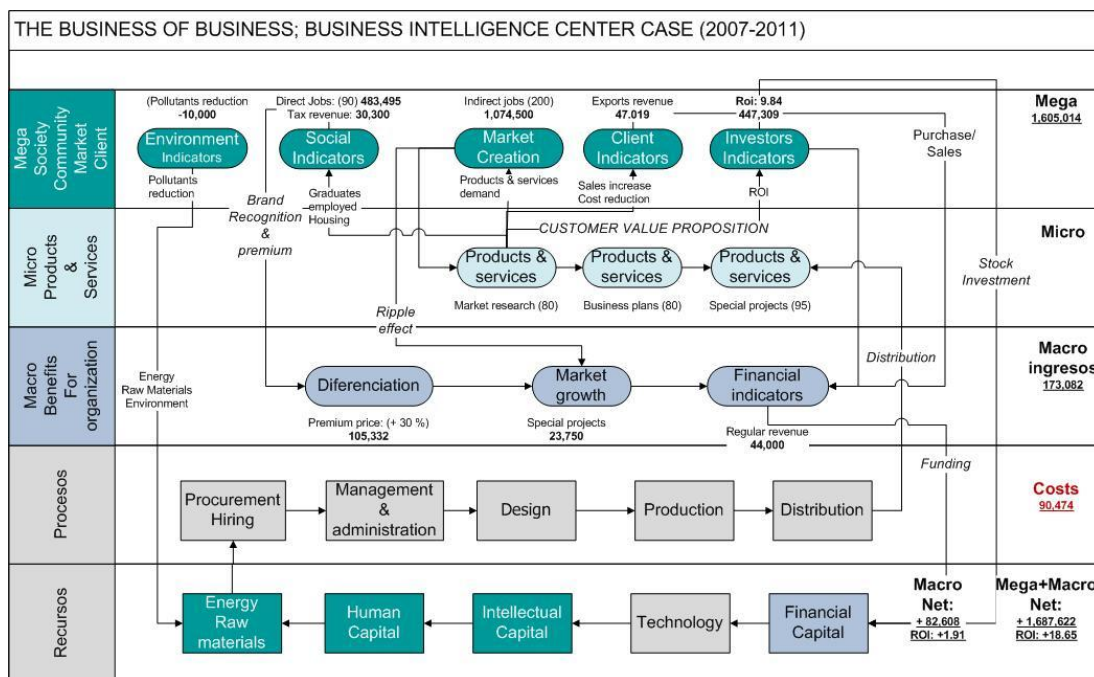
Implementing this business formula might require to combine the *core competencies* (Prahalad & Hamel, 1990 May-June) of different organizations or specialists in a partnership –think of a mix of *WebMD*³⁶, *Dr. Phil*³⁷, *Food channel*^{TM38} and chef *Rick Bayless*³⁹- to produce the desired impact on Mega indicators and collect the Macro revenues.

Or perhaps the business planners may prefer to develop “from scratch” a new organization with all these core competencies to deliver this value proposition in “one stop”.

Step 3: Explain “how” value will be created and delivered: value-creation process design (high level)

In order to make visible “the business” part of the business case, we use a multi-level flow chart, based on Geary Rummler’s and Dale Brethower’s AOP model organized according to the levels of Kaufman’s Organizational Elements Model –OEM: *Results* (Mega, Macro and Micro), *Activities or Processes* and finally *Resources*-.

Table 11: Value Creation flow: combining Kaufman’s OEM with Rummler’s AOP



³⁶ Online service that provides end users general health information, URL: <http://www.webmd.com/>

³⁷ *Dr. Phil* is an American talk show hosted by Phil McGraw. McGraw offers advice in the form of "life strategies" from his experience as a clinical psychologist. URL: [http://en.wikipedia.org/wiki/Dr._Phil_\(TV_series\)](http://en.wikipedia.org/wiki/Dr._Phil_(TV_series))

³⁸ Food Channel is part of Food Network, and online and cable TV network focused on cooking, food and nutrition information. URL: <http://www.foodchannel.com/sections/3-home>

³⁹ Chicago-based chef specialized in gourmet Mexican cooking. (Bayless & Bayless, 1987) URL: <http://www.rickbayless.com/>

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This cross-functional⁴⁰ flowchart⁴¹ has a “track” for each OEM component on and also a specific color⁴² –darker for Mega, lighter for Macro, Micro and so on- for each symbol.

Each *flowchart symbol* represents a key component in the “business” of our business: the *value creation process*.

Mega, Macro and Micro results are specified and represented as *output symbols*. (○)

Flowchart’s *connectors* reveal *how the business works* -the *dynamic* “wiring” of the business-, indicating how wealth flows from the Mega-level –clients, investors, community, environment- to the others.

Where value comes from: the Mega source

At the *Mega-level* “*flow line*” *track* –shown in the upper section of Table 12-, we can see TPC’s main sources of wealth and value: environment indicators, direct jobs, indirect jobs (market creation), client indicators –such as sales revenues for exports and revenues for investors, costs savings –those investing in the export companies that our TPC is helping to find clients and position in foreign markets.

Table 12: Value creation source: Mega “top line” and flow line

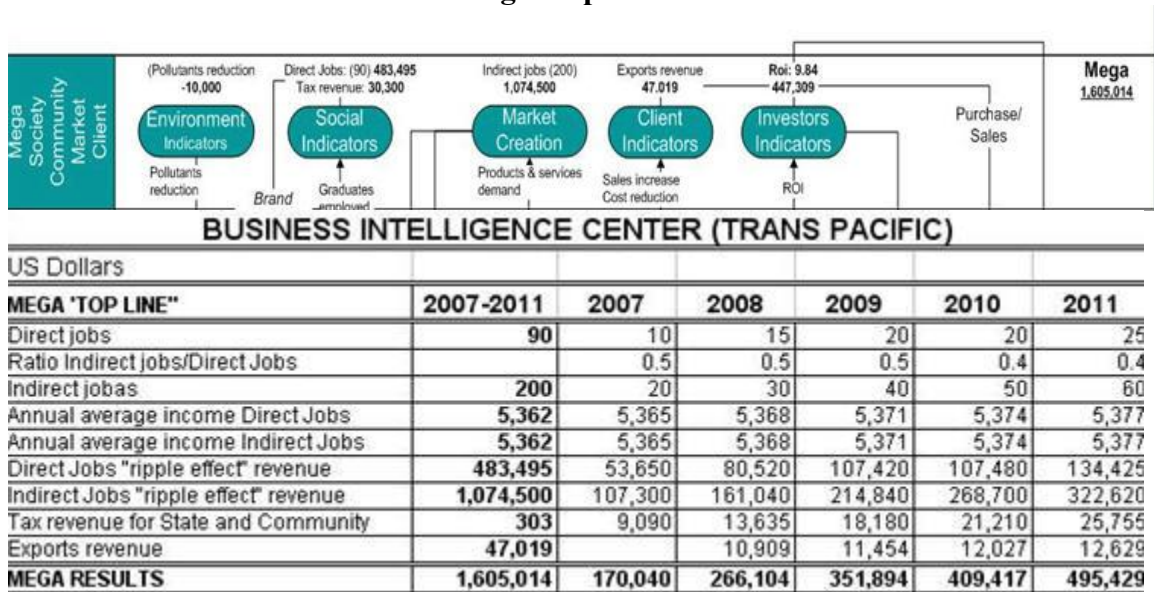


Table 12 shows the alignment between the Mega, value-creation flowline and the Mega “top line” we use in the double-bottom line business case.

⁴⁰ And frequently “cross-organizational” flow chart, since different Micro products and services can be produced or delivered by different organizations partnering with ours. (Bernardez, Desempeño organizacional, 2007)

⁴¹ A good introduction to flow charting can be found in Damelio’s Process Mapping. (Damelio, 1996)

⁴² Although the Mega level is “all Mega”, there are Mega components and indicators at the Resource level: raw materials and energy coming from our environment, people who works in the production and delivery earning money in “direct jobs” that increase community’s economy and market. Roger Kaufman uses to say “keep in mind that Mega is not in a far distant galaxy or statistics aggregates: it comes to work to your organization every day”.

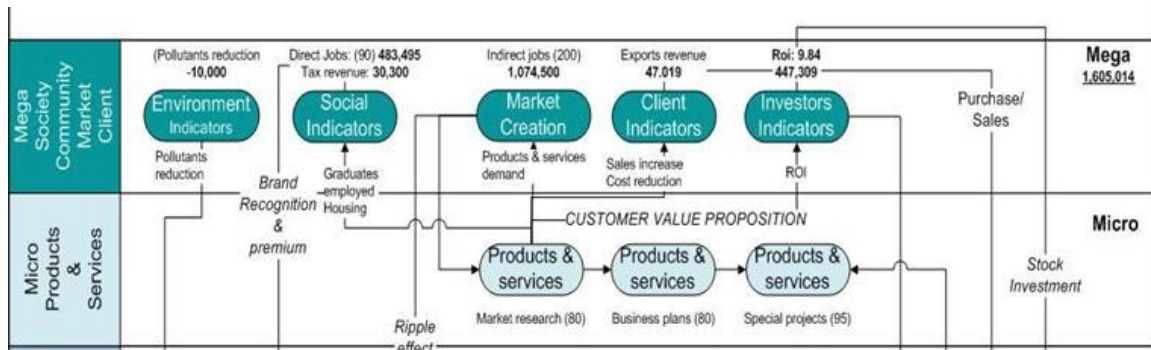
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We can also see the revenue for TPC coming from client's –indicated as purchases and sales of TPC services-. The “virtuous circle” of value is here clearly depicted for all interested to see. Every connection and figure has to be backed for sound research data and can be tested and supported during the new business “pilot” run (incubation).

Delivering value proposition to the client: Micro to Mega

Once we established our clients' and clients' clients needs and identified Mega-level indicators, our next step is value-creation is to define which Micro-level products and services, organized as a value proposition, will have to be delivered by our organization – and its partners and allies to impact specific Mega indicators –as shown in Table 13-

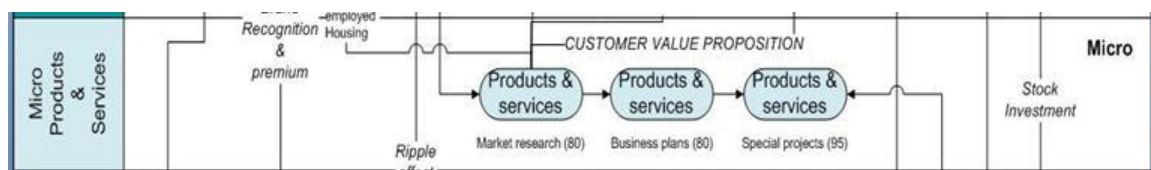
Table 13: Delivering Value: Micro deliverables to respond to Mega needs



The “upward-bound” connectors going from Micro-level products and services –such as market research, business plans and special projects in our TPC case- to impact the five *Mega-level result indicators* –environment (*pollution reduction*), social (*graduates employed*⁴³), market (*demand of exportable products & services, indirect jobs*), client (*exports revenue*) and investors (*ROI*⁴⁴)- display more clearly how our business *delivers* its customer value proposition.

Table 14 displays the process Micro-flow line aligned with the business case Micro “top line”, detailing the expected Micro results in a five-year time line (2007-2011).

Table 14: Micro flow-line (value delivery) and Micro “top line” (business case)



⁴³ As a university (ITSON) spinoff, TPC uses “*graduates employed by the new exporting ventures*” as a specific, Mega-level “Social Indicator”

⁴⁴ Return On Investment. (Bernardez, *Tecnología del desempeño humano*, 2006) (Phillips, 1997) (Kearsley, 1982)

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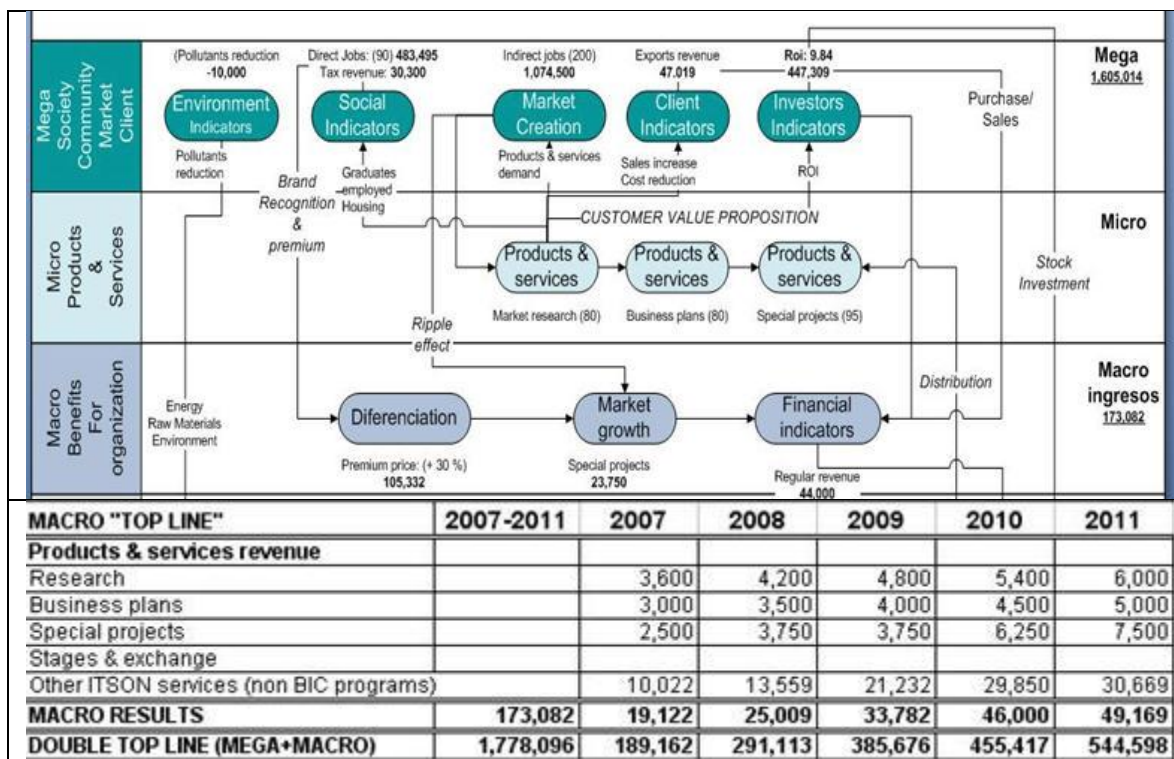
MICRO	2007-2011	2007	2008	2009	2010	2011
Products & services delivered						
Research	80	12	14	16	18	20
Business plans	80	12	14	16	18	20
Special projects	95	10	15	15	25	30
Stages & exchange	10	2	2	2	2	2
Other ITSON products & services	300	40	50	60	70	80
TOTAL MICRO OUTPUT	565	76	95	109	133	152

TPC project leaders can use the double bottom-line business case not only as a planning tool, but also for *managing the business*, following the phases of *planning*, *implementing* and *monitoring* as prescribed by Rummler's *Total Performance Management (TPM)* methodology. (Rummler & Brache, 1995)

Revenue flow: from Mega to Macro (and from Macro to Micro)

Table 15 three tiered flowchart shows the flow of benefits and revenue for the organization from the Mega level –environment, energy, raw resources, clients, clients' clients and investors- to the Macro level –in the form of purchases (clients), stock investment (investors), market growth (market creation) and brand recognition (social indicators).

Table 15: Revenue flow: from Mega to Macro



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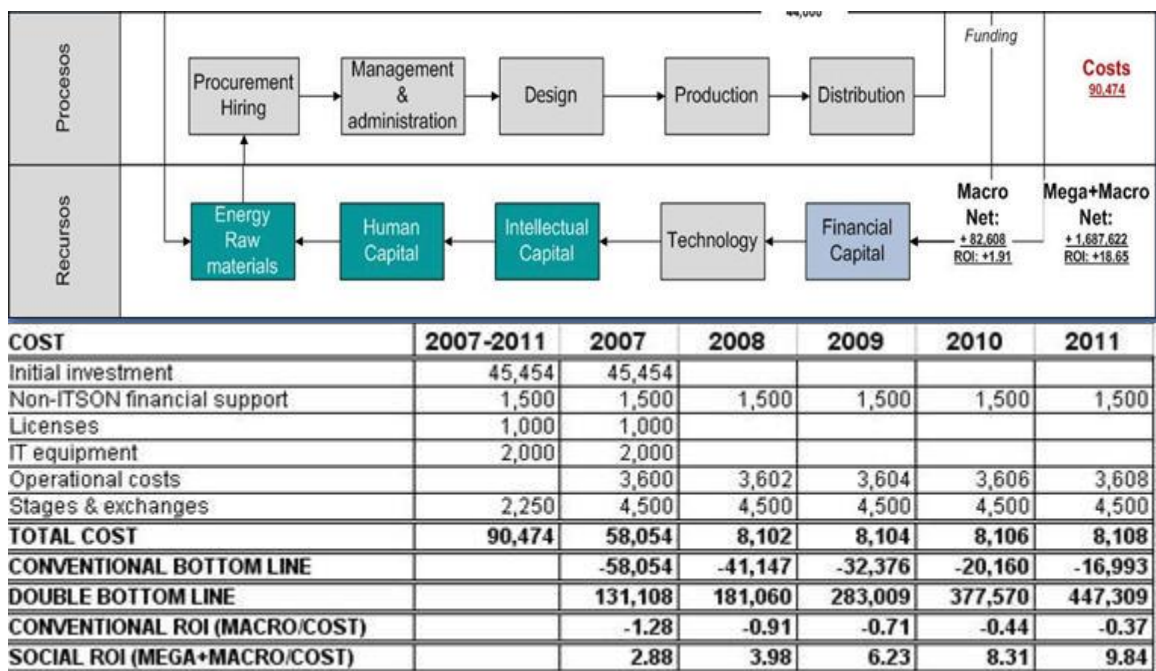
Table 15 flow line also displays how other Mega factors –such as the environment- pay back to the Macro level in the form of cost savings for pollution reduction, but also to the Resources level, by providing a steady flow of energy and raw materials.

Inside the organization: Costs (Activities and Resources)

The value creation flow line goes now inside the organization –where planning, production, distribution and administration activities take place to transform resources into products and services-.

The flow line code colors keep track of the *origin*⁴⁵ of the resources: the Mega-level (environment and society) provides natural resources –such as energy and raw materials-, human capital (people) and intellectual capital (knowledge and know-how) –that “walk-in” every day from the community. So does the financial capital provided by investors, collected at the Macro level and “distributed” through management and administrative support processes.

Table 16: Inside the organization: Activities and Resources



Using a multi-level, cross-functional and even cross-organizational flowchart combined with our double bottom-line business case helps business planners and managers to track and manage the flow of value creation, connecting and aligning internal and organizational processes with results, suppliers and partners in the business ecosystem value chain that starts and ends outside the organization.

⁴⁵ Visualizing this “virtuous circle” of value creation and retribution helps to keep those inside the organization aware of the important fact that it is the external client and community what sustains the organization, making social focus not a matter of “charity” or philanthropy but what Adam Smith called strict, economic “self interest” (Smith A. , 1776)

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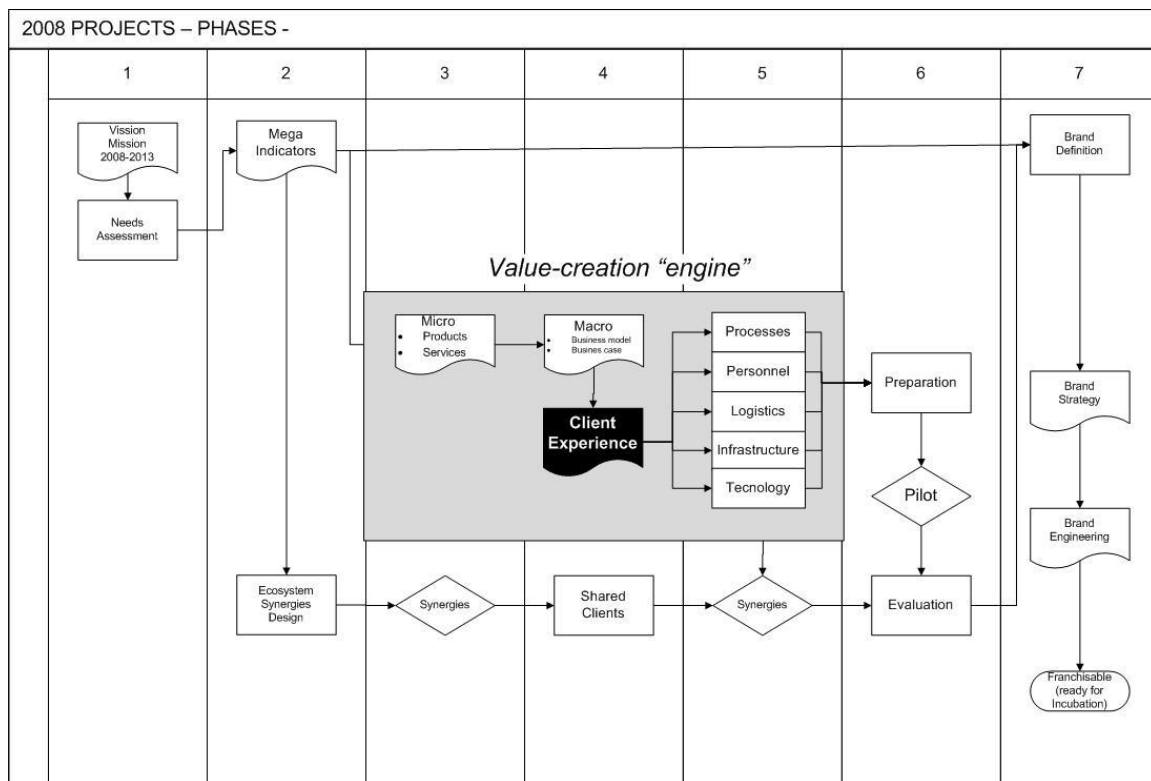
Using the double-bottom line business case and value creation flowchart for planning, management and evaluation helps prevent the “disconnects” and illuminate the “blind spots” between business planning, organizational design and execution that separate business success from failure.

Step 4: Zoom into the “value creation engine”: define the client experience (where “rubber meets the road”)

At its core, a business is as good as its weakest link: the point where products and services meet and impact clients, clients’ clients, market and environment.

In order to understand the “business” of our business model, however, we must go a step further, zooming into the design of the “value creation engine” shown in Table 17.

Table 17: Value creation engine and process



Following the business creation process sequence, Table 17 shows the previous steps in our business case: –*Vision and Mission design* (Phase 1), *Mega-level indicators* (Phase 2) , *Micro-level products and services* (Phase 3) and *Macro-level business case and revenue model* meeting the client in the *client experience* (Phase 4).

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In the dynamic, global and nimble value chains that characterize the economy of the 21st century, the Value Creation Engine design should include the support of other partner companies that might provide complementary services or products forming a business “ecosystem” –such as *Apple* offering its *iPod* services in *Starbucks* stores or *FedEx* adding *Kinko’s* stores mail, packaging and documents processing capabilities to its logistics to provide a “one stop”, integrated client experience.

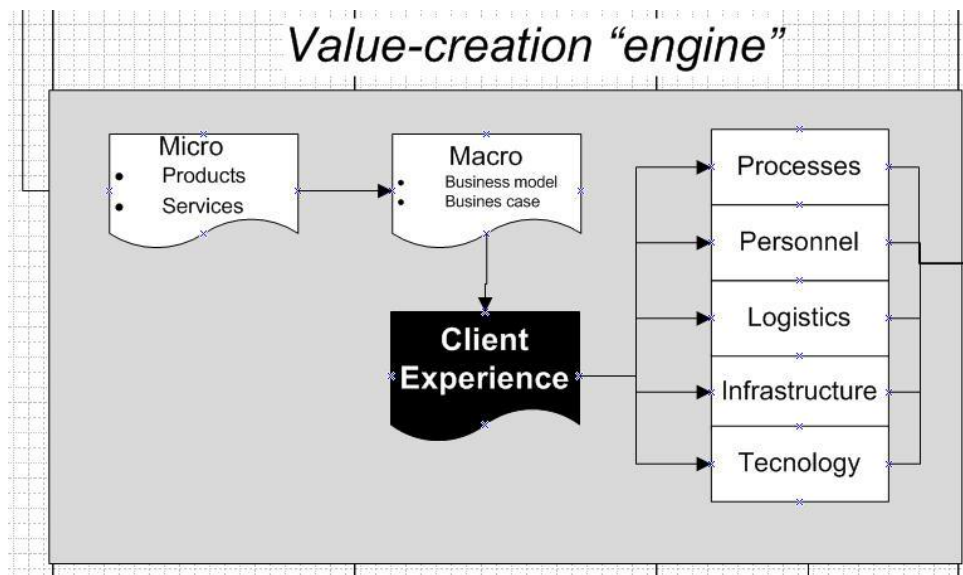
Table 17 value creation process shows how the *Ecosystem Synergies Design* identifies and organizes those activities or processes that can be “farmed out” by our organization or become part of a partnership with allies “sharing” our clients’ experience⁴⁶.

Investing in a business case without a clearly designed business experience is like buying a “concept car” that has no engine.

A client experience model helps planners and investors to pilot test the business case during the “incubation” phase⁴⁷, and as a sound, realistic starting point for designing effective processes, selecting adequate people, organizing our logistics, infrastructure and technology (Phase 5).

At its core –shown in Table 8- the Client Experience must define the standards that all key support factors –*technology, people, processes, logistics, and resources*- must meet in order to ensure consistent, reliable and successful implementation -instead of the other way around-.

Table 18: The Value Creation engine core: the Client Experience



⁴⁶ A good example of this approach are partnerships such as Starbucks stores, wireless Internet providers and media companies that support the Starbucks’ client experience. (Schultz & Jones Wang, 1997)

⁴⁷ Many startups “skip” the “incubation phase” only to discover that testing a business model in large scale under the pressure of competitive market conditions is much more expensive and leads to almost certain failure (Barrow, 2001) (Bernardez, Desempeño organizacional, 2007)

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The client experience applies to products as well as to services.

Clients differentiate and value products not just because of their technology or design, but because of their experience with them from the beginning –*marketing, information, purchasing* phases- along their life cycle –*reliability, performance over time* experiences- until the end –when *replacement, resale value, upgrading* performance can be decisive to make or break clients’ loyalty-. All these factors are part of the client experience.

Mercedes-Benz customers switched to competitors like *Lexus* or *BMW* when *Mercedes* new technology proved unreliable, lowering the overall car quality ratings. *BMW series 5* customers switched to *Mercedes* and *Lexus* when they found the new electronic dashboard and hi-tech stereo commands unfriendly.

Otherwise loyal and enthusiastic customers might be turned off by products that have lower resale value –such as *Motorola’s* frequently down prized *Rzr™* cell phones- or upgrades with downward-compatibility problems –such as *Microsoft’s Vista-*

A client experience is a combination of (1) multiple *attributes* of the *relationship with products or services* that matter to the client and stages and (2) *steps* that the client goes through in his/her interaction and transactions with the company. Each step is what Jan Carlzon⁴⁸ called a “moment of truth” -a moment where the client actually compares what he/she gets with our business case “value proposition”.

In order to generate loyalty to a brand, its client experience must also be *consistent, reliable* and easily *replicable*. (Smith & Wheeler, 2002). Clients must get used to get *what they expect the way they expected it* every time.

Building the business organization processes, logistics, competencies or administrative procedures around a clear definition of the client experience helps to avoid costly and frustrating process of “learning by doing” at the expense of client’s loyalty and company’s reputation⁴⁹.

Using the client experience matrix helps planners “tailor” products and services to the client, rather than the other way around.

Staff and franchisees must be able to get each new business unit running optimally in the fastest, most reliable way possible.

A superior *client experience* is what distinguishes iconic brands such as *Starbucks, McDonalds, Whole Foods, Disney, Apple* or *Toyota* from the peloton of passing and

⁴⁸ CEO of SAS –Scandinavian Airlines-, author of the best-seller in quality of service “*The moment of truth*” (Carlzon, 1987)

⁴⁹ Even companies that hold a “quasi-monopoly” dominance of the market such as Microsoft in the Operative Systems, have paid a hefty price for testing their products on the real market, exposing users to miserable client experiences. The popularity of Microsoft’s rivals such as Linux or Google stems from the resentment against the company and its products generated by those experiences.

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failing “business experiences”⁵⁰, creating dedicated –even fanatic- customers that pay premium prices and “evangelize” other clients through “viral” marketing.

A well-designed client experience allows us to pilot test and evaluate our business model during the “incubation” (Phase 6) before “branding” and taking it to the market either by rising working capital in order to launch and manage a larger operation or by franchising the proven model to others (Phase 7).

A tested client experience is intellectual property of the highest value, franchisable and scalable. Companies such as *Starbucks*, *Disney*, *McDonalds* or *Wall-Mart* base their unique capacity for local and global growth in their winning combination of business models and proven, carefully designed client experiences.

In order to design a client experience we must define two basic components:

1. ***Experience attributes***: identify which are the key attributes that a client seeks and values in our products and services.

Starbucks' clients value the design and relaxed environment of the European café that they find in the stores; the hi-speed, Wi-Fi connections and availability of sockets to connect their laptops for work or study, the variety of coffee flavors and the social and environmental commitment that the company shows in selecting and training its baristas and its Third World coffee-growers.

Whole Foods' clients pay premium prices for the organic, pesticide-free products, as well as for the company's care for promoting small farmers, local sourcing, recycling bags and saving energy. Amazon customers love the one-click-away simplicity of the Web interface, the customer-centered suggestion tools, the one-day delivery capabilities and the easy return and guarantee policies. Think of your own company. Think as a client.

2. ***Key stages and steps –the “due process”-***: identify the actual stages and steps of the interaction and transactions between the client and your company's products and services.

Amazon's clients are so enthusiastic about the simple, few steps and the straightforward, flexible processes to shop online in the store that no longer limit their purchases to books, but to an entire universe of merchandise. They are *Amazon*'s clients because of its sleek process that makes returns and refunds fast and straightforward, stimulating extra purchases.

⁵⁰ According to US Small Business Administration – USBA-, each year 650,000 new small businesses (fewer than 500 employees) start in the US. Only 30 percent survives the second year. (USBA, 2005) (Bernardez, Desempeño organizacional, 2007)

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Starbucks' clients love the social interaction and the relaxed pace of the processes. They value the quality time *Starbucks* offers for their stops at the store and the relaxation and enjoyment of the café product it provides.

Starbucks stores provide easy Internet access and a quiet, relaxed environment in which its customers can work, meet, read or listen to music and shop through Amazon.

Think of your own company, as a client: when do you have your first notice? How can we save clients' & company time? What are the key steps or transactions from the client's standpoint?

Once we sorted out attributes and steps, we can build a client experience matrix as shown in Table 18 for a bank branch.

Table 19: Client experience matrix (Banking example)

Client Experience		ATTRIBUTES						
		Fast services	Correctly managed interaction	Products and services knowledge	Knows client and his/her history	Provides adequate solutions	Fast problem-solving	Professional attitude and behavior
KEY STAGES AND STEPS	Open new account	<i>One step , 5 minutes setup One form</i>	<i>Recognizes client Recalls all previous information</i>	<i>Explains, compares and tailors P&S to client needs</i>	<i>Recognizes client Follows up Explores needs</i>	<i>Offers solutions tailored to needs Implements and follows up</i>	<i>Helps client solve problems Takes charge</i>	<i>Saves time Achieves high client satisfaction Data 100% correct</i>
	Routine transactions	<i>Under 5 minutes</i>	<i>One step, one person</i>	<i>Manages each product OK</i>	<i>Anticipates solutions</i>	<i>To client satisfaction</i>	<i>Saves client time</i>	<i>Saves time Zero mistakes</i>
	Financial planning and advice	<i>One step assessment FAQ</i>	<i>Makes sure client understands plans and risks</i>	<i>Offers two best alternatives Compares</i>	<i>Tailors plans to client priorities</i>	<i>Brochure Calculator Simulation</i>	<i>Helps client get information</i>	<i>Minimizes risk Client understands</i>
	Credits and loans	<i>Automatic scoring</i>	<i>Online pre-qualification</i>	<i>Knows client industry</i>	<i>Knows client history</i>	<i>Minimizes risk</i>	<i>Provides self-help to select</i>	<i>Idem + Meets S&L standards</i>
	Problem - solving	<i>Routes correctly</i>	<i>Uses decision-making algorithms</i>	<i>Solves problems w/all products</i>	<i>Zero "old problems"</i>	<i>Cost-benefit-consequences</i>	<i>Gets it solved the 1st time</i>	<i>Zero recurrence Optimal solution</i>
	Information requests	<i>Uses all job aids</i>	<i>Keeps human contact</i>	<i>Helps finding info Prints handout</i>	<i>Follows checklist QA</i>	<i>Saves time</i>	<i>Gets all info together</i>	<i>Instant < 5 min Zero recurrence</i>
SUPPORT	Technology People Policies Processes	<i>Usable Web EPPS tools One step process</i>	<i>Client information screens (EPSS)</i>	<i>Online products FAQ Training</i>	<i>Needs assessment online tool Commercial platform</i>	<i>FAQ system Simulator Web access</i>	<i>EPSS for problem solving Fast, reliable system</i>	<i>Screening Performance Appraisal Bonus Training</i>

Support requirements such as technology, people skills and competencies, policies and processes derive from the requirements of the client experience. Each row shows the quality requirements to perform each step.

The lower row shows the support required to guarantee each service attribute.

Different job descriptions will share the same matrix, emphasizing in the overall quality of the client experience instead of “doing well their job”.

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Business products or services can be compared against competitors or alternatives using this chart as scorecard.

Only business models and brands that have a client experience “by design” ⁵¹ can be safely franchised. Without these specifications, each franchisee varies quality randomly, adversely affecting brand image and reputation.

Last but not least, checking the *Client Experience model* as value creation engine provides investors and evaluators a more clear understanding and estimate of the business of each business case.

When a double bottom line business case is for you

This is a summary checklist for you to check whether a double bottom line-business case is for your project:

A business case is for you if:	Yes	No
<ul style="list-style-type: none">• Your company/project has a corporate social responsibility commitment• You are seeking public funds/ support• You are seeking “angel” capital investment• Sustainability is a critical factor for your project or organization• Market development is a priority• Your target market is a<ul style="list-style-type: none">○ New○ Developing○ BOP market• You (or your company) are<ul style="list-style-type: none">○ Starting a new business○ A business incubator○ Want to become a contributor to the new global realities• You want to show your client the full return of each \$ spent on consulting investment• Your company is facing some of these challenges:<ul style="list-style-type: none">○ Inhospitable business environment○ Loss of qualified workforce○ Low engagement○ Social liabilities○ Community rejection / resistance		

⁵¹ As opposed to unreliable, unpredictable client experiences “by chance” that are the hallmark of poor quality and poor service

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Five Easy Pieces

Five basic documents summarize the business case of our business:

1. Vision and Mission indicators
2. Double bottom line business case
3. Value creation flowchart
4. Value creation engine
5. Client experience matrix

Those five single-page pieces can convey a thorough understanding and a full picture of our business model to all stakeholders.

Some recommendations from experience

1. ***Keep it simple, avoid the triple, “quadruple, quintuple-top line”***: some authors separate “top lines” according with the kind of indicators: environment, social, cultural and so on. (Savitz & Weber, 2006) (Laszlo, 2003) (Holiday, Schmidheny, & Watts, 2002) (Henriques & Richardson, 2004)

We beg to differ: the main purpose of our double bottom line-business case is to align and communicate business planning with business management and bookkeeping.

We recommend keeping top lines simple, at no more of three levels (External Clients, Company, Products) so they provide a “big picture” view of the business in a single document.

Environmental, social or health variables can be included as separate item lines within a single Mega-level “top line” category.

2. ***Stay practical: use sound research results, avoid “fads” and “snake oil”***: a business case is as solid as the foundations and rationale for its numbers.

Be careful to use solid, validated research rather than opinion or commentary books.

Challenge the basic assumptions of your model with contrarian evidence until you make sure that your estimates are solid and realistic.

Play “straw man” and “devil’s advocate” and make sure that all stakeholders find evidence as solid and reliable as you do.

Keep a human scale: avoid selecting Mega “top line” indicators that are too large to be sensitive –like regional GDP or per capita income of a city- for your project’s scale and scope. Think instead of your actual employees’ income, health, housing or environmental indicators –variables that your organization can and must control- and about measuring indicators of the increased revenues or cost savings your products and services generated for actual clients –variables you must use to support your business proposition and calculate your prices-

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Consider your initial business case as a research design: your variables must be under control, as well as the client and clients' client target population, so you can learn from the pilot test whether your assumptions were right or not, and your business models works or not, and, most importantly: "why".

Business people and scientists have opposite attitudes toward failure: for the conventional business person, failure "is not an option" because it usually involves bankruptcy and ends the venture. For scientists, failure is often the only reliable source of the knowledge required to succeed.

Under our incubation approach, our business case and client experience must be pilot-tested in a limited running before launching a full-scale operation and risking larger amounts of working capital.

This approach helps business to marry science in a way that has proven the most successful since Edison to our days. Make sure that all stakeholders from both backgrounds understand and share the model.

3. ***Mind your business: check the business case:*** your business case is not only a planning and modeling tool, but also an evaluation model, which should provide your organization with sound, field-tested evidence-based learning. Additionally, the business case can (and should) be used by managers to run the business, trying to reach the targets of the three top lines and check the two bottom lines.
4. ***Mind your business (and your strengths and vocation): from "pasta factory" to "idea factory"***

When *Ray Kroc* –then a salesman of industrial mixers for restaurants- first met the *McDonalds* brothers diner in San Diego, California, he saw a business model were the restaurant-owners saw a successful business. Kroc thought of franchising the model and putting *McDonalds* restaurants all over the country. The *McDonalds* were not interested and sold their name and "formula" for 2.7 million dollars in 1961 and continue operating their own restaurant until retiring some years later. (Kroc, 1977)

They never complained about their luck, not just because back in 1961, 2.7 million dollars guaranteed a good life after retirement, but because they were "hands-on" impresarios –those of the kind that enjoy operating a day-to-day business, like so many small "pa and ma" operations-.

Kroc, on the other hand was more attracted by the simplicity and replicability of the business idea than for *McDonalds'* hamburgers or San Diego. As a vendor and

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a salesman, he had always analyzed and compared business from a clients' perspective.

Kroc saw in the McDonalds brothers role models for future McDonalds' franchised restaurant operators: dedicated people –usually families with strong work ethics and a passion for cooking, cleaning and operating a store-.

Our double-bottom line and business model can be used both ways: to operate a single, successful business or to replicate it and franchise it to third parties. These are, however, quite different business approaches: the ownership approach focuses on produced capital –production and management- as value creators. The franchise approach focuses on intellectual capital –business models and engineering- as the “business” of the business.

You must ask yourself and your business partners about your strengths and preferences, as well as the potential of each approach before building your business case.

Summary

We hope these tools and models help you to better understand and evaluate the business of your business idea, as they have done for our entrepreneurs at the Sonora Institute of Technology.

A sound, verifiable and replicable business model is the cornerstone for success in the microeconomic world in which entrepreneurs, clients and managers work and live, and also provides a “reality check” and a risk-assessment tool for those operating in the macroeconomic world in which investors, economists and government operate.

The double-bottom line business case might help to increase new business' success rate by providing a sounder set of tools to midwife and incubate young enterprises. It should also reduce investors and stakeholders' risk by focusing their attention into providing measurable value for clients and community, in the understanding that doing well and doing good are not contradictory, but mutually indispensable.

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