How CEO's Build Maximum Corporate Value

What is your life's work worth?

No matter what size your business is if it is privately held, the balance sheet is the most valuable, long term scorecard of success. It is the balance sheet that will have the biggest impact of company valuation when you decide to sell, take on partners, etc. It is the balance sheet that will determine what your life's work to date is worth, today and in the future. Unfortunately, most owners look at balance sheet value in dollar value of *tangible* assets. After all, the rest is just "blue sky" right? Wrong.

How did we get to our current situation?

Over the twenty years preceding the recent economic downturn we watched company valuations skyrocket and the stock market along with it. Is this because the value of the tangible assets in these companies has increased exponentially, or is this just an irrational band wagon "fad" building a pyramid of paper assets soon to fall apart? While some of the latter certainly occurred, it was only a bi-product of the more fundamental change in what has increasingly come to create value in companies over the past two decades.

Continuous advancements in technology, both scientific and process, have enabled motivated minds to leverage tangible assets exponentially into new markets, mediums and products. As a result, companies' increased market value has been a product of this human aspect of the business, a component that can't be directed by management but must be fostered, guided and created by leadership through the motivated engagement of employees or "building the team".

What is the major contributor to company worth?

Baruch Lev – professor of finance and accounting at NYU and a leading authority on valuation of corporate assets – says that the value of tangible assets on a balance sheet now make up only about 60% of a company's market value. So what is the rest? Lev defines four categories of *intangible* assets that can make up as much or more than 40 % of company value: Innovation, brand, unique business practices and "franchise" or sunk investment costs. The strength of the first three of these four categories is primarily driven by the overall level of employee engagement, motivation and resulting contribution this makes to the company. At least 30% (3 out of 4 of which make up 40%) of the value of the company is driven by the level of employee engagement in the company or what we call, the "performance quotient" (PQ) of the company

The PQ (0-100) is simply: "the percentage of a company's workforce that is fully engaged and motivated to do their job the most effective way possible, always seeking better ways to do it". This is effectively, where the value of the company "lives". Tangible assets can never be worth more than 1X their value because with little exception, they each perform only one function at a time, and if they do it is only though the ingenuity of the human component, not an action of their own. In other words, they can't be significantly leveraged. In contrast, intangible assets have virtually unlimited value, limited only by the ability of leadership to create an environment in the company that increases the PQ to the maximum.

This combination of technological advancement and the intellectual and cultural evolution it drives means a company with a high PQ is worth infinitely more than one with a low one. In short, if you want to *really* build your balance sheet; then *really* build a team with the highest possible performance quotient!

Are you employees motivated and fully engaged?

Extensive research done by the Gallup organization indicates that between 25 and 30% of the employees (smaller companies higher) of most companies are motivated and fully engaged with the company. Does a PQ of 25 sound like a benchmark that could be improved upon?

How do you create a high "Performance Quotient"?

How do you create a high performance culture or high, PQ and what *does* it take to create a higher level of employee engagement? There are four components:

1. A clear definition of what the company will look like when it reaches success, why that is important and what results will be required to achieve this success (Vision/Leadership).
2. A clear understanding of the behaviors and functions needed in the company to produce those results and, employees with skills and interests aligned with those functions and behaviors (Mission/Purpose/Management).
3. Systems, practices and policies that provide a clear path for employees to follow to be successful at what they do, feedback and support on and for their progress and results (Performance management systems).
4. Individual employee accomplishment and reward that motivates them to produce the desired results for the company (Mutual benefit).

World class innovation, brand and practices are assets that come from engineers who know why this component should be developed and what they can do to create it in the most effective way possible. Marketers need the same to develop effective brands and sales people must know the why they sell what they sell, how much they should sell, could sell or have sold. Each employee needs to be able to see and feel the personal benefit from contributing to company success.

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What might a new way of looking at *your* balance sheet mean to your company's value?

What does building your balance sheet this way look like? A 20 year old company with tangible assets (book value) of $100m, a performance quotient of 25, generating 5% operating profit, has market value of $125m. If they increase their PQ to 75 over a five year period (300% increase of 30% of the company's market value) they will increase the market value of the company to $200m. A 60% increase or an annual balance sheet growth rate more than double that of the first 20 years.

Building the balance sheet is about creating a corporate environment where employees' personal needs are met; they can pursue and achieve their own personal goals and achieving those goals and results in a higher level of success for the company.

If you really want to build your balance sheet and your success; build your team, *build your Performance Quotient*.

How do you start?

The following six steps will put you on the path to employee engagement and thus increased valuation:

[1] Evaluate your company and the interests of ownership (stakeholders)
Complete an independent corporate performance evaluation based on key financial, operational and *cultural* benchmarks established as world class.

[2] Review your corporate vision, outcomes desired and current talent
Revisit why you are in business, what you want that business to look like in 5-10 years, whether your current focus and practices are taking you there and what resources do you have and need to get there.

[3] Ownership alone, must determine*:*

1. If their vision is credible, current and clearly understood throughout the company
2. What *results* will be necessary to bring this vision to reality
3. What *top leadership structure* is required to produce these results
4. What top leadership *additions, changes, alignment/refocusing of talent is necessary* to achieve these results.

[4] Ownership with Leadership must define:

1. If ownership's vision is credible, current and understood
2. What *functions* must be performed to produce these results
3. What *management organizational structure* is required to perform these functions
4. What management *additions, changes, alignment/refocusing of talent is necessary* to function effectively

[5] Leadership with Management must:

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1. Clearly understand and support ownership's vision
2. Define the *tasks* to complete functions to achieve results
3. Define the *employee organizational structure* required to perform these tasks
4. What employee *additions, changes, alignment/refocusing of talent is necessary* to perform tasks effectively

[6] Performance management systems/practices implemented

1. Alignment and communication of corporate vision and status with performance reporting, employee targets, status, development and tracking,
2. Alignment of compensation with individual performance and company results
3. Continuous feedback loops at every level.

Whether starting a company, re-structuring it for greater success or saving it from failure, these steps will produce the highest possible level of success and corporate value!

Author's Biography

Will Moore is the principal of Moore performance Group and has helped start-ups through $400 million companies in his 25 years of starting, building, restructuring and leading organizations.

He has held ownership, CEO, senior management and advisor positions in a range of industries from manufacturing to retail food distribution, agri-business to commercial real estate finance and commercial mechanical services to education.

Will is a graduate of the University of Oregon. He manages the family farm in Banks, Oregon and sits on local school and community boards.

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