

# HOW SMART INVESTMENT IN LEADERSHIP YIELDS SIGNIFICANT ENTERPRISE VALUE

**Four Leadership Value-Drivers to Shore-Up Now**



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## Overview Statement:

Up to a certain point a company’s value is largely determined by how well it is managed. The fundamentals of business dictate that organizations that lack basic management disciplines will not only fail but are likely to fail quickly. But beyond that certain point, the organization’s success factors are no longer a function of good management. When well managed companies fail to thrive or struggle to grow, the problems always point to weak leadership.

In today’s metrics-driven world, it is easy to relegate leadership as a soft-skill component of good management: the human face we put on tools and systems. But leadership is not cosmetic – it is

integral to the quality of an organization's performance. Leadership isn't a secret sauce, it is a function of human competence that cultivates and perpetuates competent human performance in order to reliably accomplish what matters most to the organization. To discount the value of strong, highly effective leadership is to put yourself as a leader and your organization in peril.

**Being results-focused is critical to building a strong bottom line, but building real enterprise value requires the demonstrated ability to maintain a sustainable competitive advantage.** This focus is the role leadership. The emphasis on good management as a foundation for organizational health, performance and success is certainly well founded, but no degree of management can offset poor or ineffective leadership.

**While enterprise value is a principal concern of publicly traded companies, it is even more important to private company owners who are or will eventually be interested in maximizing the proceeds from a sale or other planned exit strategy.** Ownership is transferable and shareholders can be taken-out and replaced by transaction, but leadership is integral to an organization's current and future value and must be durable to withstand the stresses of the transition process and the stabilization and growth that needs to follow.

**Having an unhealthy concentration of any critical factor or function, be it customers, supply chain – or leadership adds a significant level of risk that will ultimately depress the take-over price.** Leadership should not be comprised of just one individual. Very small companies might have one person serving in many key roles, including leadership, but most organizations can benefit from transforming their management teams into leadership teams by focusing on developing leadership competencies and setting standards that encourage and reward better leadership behaviors.

Business owners – whether they function as leadership or not – can and must ensure that their organization is not just well managed, but is equipped to meet the challenges of a VUCA\* (volatile, uncertain, complex and ambiguous) world by developing strong leadership as a basis for sustainable value growth. Traditional management is largely ineffective in adapting organizations to the fluid forces rampant in every sector of every industry – and is entirely ineffective in developing the human capital required to perform to ever-increasing demands.

\*According to Harvard researchers Robert Kegan and Lisa Lahey the increasing influence of VUCA forces (a term coined initially by US War college as the worldwide conditions emerging at the end of The Cold War and now is broadly seen as the situational reality facing modern business) requires a more adaptive leadership style. The reactive tendencies that underpinned the long-standing perspective of "command and control" are ineffective in a VUCA environment, and must be replaced by leadership driven by creative tendencies. In essence, command-and-control, which is based on having staged contingencies to deal with escalating opposing force, breaks down and fails in part because of the predictable and typically rigid approach – versus more creative and agile measures that can readily adapt to unpredictable conditions.

# Using Competence KPIs to Shore-Up Enterprise Value

Enterprise value is a coefficient of organizational competence. Any rational assessment of a company's market value primarily takes into account what the organization has accomplished – and then, based on that, what the future potential for accomplishment might reasonably be. The capacity for future accomplishment (and value) is predicated on the quality of what has already been accomplished.

*Competence is a function of your ability to employ and manage the competencies or the knowledge, skill, talent, and credentials/experience needed to, 1) accomplish your aims, 2) engage the power of purposeful leadership to fuel effective execution, and 3) accomplish what matters in terms of being meaningful, significant and positive.*

Individual or personal competence is driven by leadership. In most cases it is extrinsic, requiring the presence and guidance of a competent leader. It is also possible that this leadership is intrinsic and derives from a personal sense of duty to the organization's cause.

**Some people are capable of leading themselves** to a level of conscientiousness that informs their absolute dedication to what must be accomplished and instills the grit that drives the level of effort and sacrifice required to fully execute one's objectives. Others require the guidance provided by external forces of leadership that inspire and make it necessary and possible to perform with the level of engagement that is necessary.

**Organizational competence is a measure of the effectiveness of leadership** in terms of connecting the collective individual performance to the organization's indelible purpose.

Increasing enterprise value is a function of either, 1) removing the systemic dysfunction that interferes with an organization's capacity to operate at its peak level of performance, or, 2) introducing new competencies that enables the organization to accomplish things that enhance the value it has the capacity to create. High-performance organizations continuously do both.

**The role of leadership in all of this is to identify the problems that are necessary to solve and then demonstrate how doing so is possible.** Leadership competence is realized by causing others to become inspired as to see what is then possible, and connect the level of conscientiousness and grit required to also believe it is necessary. Part of knowing what is possible is a function of managing the organizations capacity and competencies.

**Key Performance Indicators, or KPIs, are the basic tools for managing things.** The concept being that *what gets measured, gets done*. Every action we undertake can be measured, but the critical factor amounts to measuring what really matters. Measuring things of little or no value amounts to contributing useless data that only further clutters an organization's bandwidth and tends to

contribute to rather than reduce dysfunction. Determining what must be measured is a function of understanding and articulating the core purpose of the organization and measuring both individual and group performance based on the accomplishments dictated by that purpose.

**The performance baseline for most organizations is to simply have the means to sustain and live another day.** Success is generally measured in the value that can be extracted from the organization and placed into the hands of its shareholders and stakeholders.

Mediocre organizations, even rife with dysfunction and marginal stability might be deemed successful when compared to the broad majority of organizations that collapse within a short time of inception.

*The benchmark for competent organizations is to rise to the level of a High-Performance Organization – or one that does what “it” does- better than any other, is always adapting to the environment while constantly improving its competencies – in order to maintain a sustainable competitive advantage.*

*Unless an organization (and its leadership) operates with a sense of duty to perform at an exceptional level, the performance standards will drift to the lowest common denominator, and the enterprise value will reflect this diminishment.*

### **KPIs Must Be Purpose-Driven to be Value-Drivers**

For an organization to be successful by any meaningful measure, it must be competent. This means that it is not only capable of accomplishing meaningful objectives, it must also actually and measurably accomplish things that are significant. While significance might be interpreted as a subjective reality, in truth it is not. Significance with regard to measuring accomplishment is a matter of impact. Results need not be significant, but insignificant results have no meaningful or positive impact on whatever the desired aims might be. What is meaningful must always be judged in some definable context and is relative to that context. A dollar might feed a hungry child in a remote underdeveloped region of the world, but a dollar increase in profit to a multi-billion-dollar company, while measurable is hardly significant.

Significance is a derivative of purpose. An organization’s purpose will not only determine what is valuable or significant in terms of how it performs – it will also inform the importance and significance of the people whose roles are defined by the needs of the organization. Without a clearly defined and compelling purpose – people cannot perform to their potential – nor will they gain any real satisfaction from what they might contribute.

## Identifying Your Indelible Purpose

Modern organizational theory suggests that organizations must create guidance through statements of vision and mission that identify why the organization exists and what its aims are. These are the rudimentary tools for creating a sense of alignment for the organization and a standard by which action can be measured.

But these are just tools – and any tool is only as good as the hands it is in. If the organization doesn't have a true aim or purpose – the creation of vision and mission statements are little more than exercises that create an illusion of purpose – and fail to create accountability around a mission.

A Statement of Indelible Purpose – (SIP) differs from these tools in that it is not a tool, per-se, meant to extend the ability of the user. Rather than a creation, it is a reflection of what is evident and true about the organization. It is not meant to inspire people, but rather give people the opportunity to inspire themselves to create their own standards of performance on the basis of how the contributions of the roles they play serve the purpose of the organization. It is a manifesto that defines what it is that leadership follows. *It enables leaders to ask others not to follow them – but join them in the pursuit of serving the great and worthy cause that is the Indelible Purpose.*

A Statement of Indelible Purpose is what connects a person or organization's internal function – or what Pat Murray of J.P. Murray Associates calls “the inside moves” to the world in which they operate – and serve to guide all interactions external to the organization – or “the outside moves.”

Unlike a mission or vision statement that is typically borne out of strategic objectives in order to coalesce alignment of the various actors' performance – often with the intention of driving the organizations performance around productivity, the SIP is what defines what is in the DNA of the person or organization. In other words, the SIP is not crafted in reaction to the environment in order to stimulate right actions, it is mined strictly from within. It is solely based on what the values and beliefs of the leadership at the time of inception find to be necessary to accomplish – without concern for approval from anything on the outside. This is the noble cause that every objective, action and actor's performance is measured against: the denominator being, does this serve the cause?

Operational strategies that serve to guide what accomplishments are significant and meaningful will naturally take into consideration the “outside moves” as well. However, a powerful and noble cause is not founded by a simple or convenient consensus view – it is driven by absolute necessity and urgency that should be self-evident. It is in the execution as a function of possibility where the consensus forms – where internal performance is measured against external need and acceptance. *An SIP is not a marketing strategy, it is the reason for existence.*

The SIP, like any noble cause – is not what is written on paper – it is what lives in the hearts and minds of those who serve it – and is measured in meaningful and significant accomplishments. An SIP requires competence: the capacity to perform realized only by results.

The crafting of the SIP is conducted based on an honest and thorough, even exhaustive examination of why the cause exists. It requires an interrogation of necessity based on intention and the expectation that even against obvious odds, with sufficient conscientiousness and grit – the means to accomplish the aims of the SIP are somehow possible. The SIP is not what is happening; it is what must happen.

For the statement to be useful, it must be clear and understandable to all those who will choose to follow. It must inspire competence – not as a function of poetry and romance, but as a rallying cry for some form of basic sense of justice and a reflection of essential values. It is noble in that it speaks to the benefit of a greater good – not just to the needs or desires of the person or organization – and speaks on behalf of the cause – as if it were a Goddess.

To guide the formation of your SIP – you may use the following questions.

*What is it that we must accomplish, that if we do not, will not happen?*

*And what are the consequences of failing beyond the impact on your own self-interests?*

Then use the following standards as guidelines to assess your statement of meaningful purpose...

Is it:

- Simple?
- Clear?
- Honest?
- Compelling?
- Not bound or limited by practicality or the status quo?
- Not a strategy, but *causes* strategies to be formed?
- Not subject to any specific tactics?
- Able to draw emotions, positive or negative?
- Seductive without a need for selling it?
- Raw, naked but not ‘sexy?’
- Immediately understandable to those who can?
- Memorable without needing to be memorized?
- Unshakable and gets into your skin – *It has you, you don’t have it?*

# The Four Leadership-Value-Drivers

There are four Leadership Value Drivers that you can shore-up to improve your organization’s leadership that will have a measurable positive impact on your enterprise value.

These are:

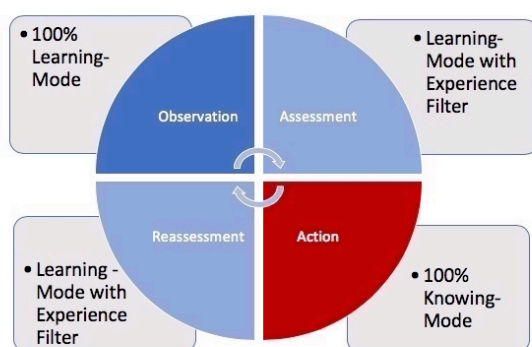
1. Self-Competence
2. Organizational-Competence
3. People-Making-Competence
4. Meaning Management/Communication-Competence

## 1. Driving Self-Competence

**Self-competence for anyone in a leadership role is defined by learning to first lead yourself.** A competent leader is one who makes him or herself competent, meaning having the necessary competencies and accomplishing the things that they must for their cause or organization. This is a matter of being fully prepared to lead themselves and develop competence in the people they lead and in the organization they drive. Preparation is a matter of knowing what you don’t know and need to know – and that what you must accomplish is in service to the noble purpose that defines your aims.

We are all the sum of the choices we make, and we can change the trajectory of our lives and the lives of others by making better and more powerful decisions. Self-competence is a product of our curiosity and our dedication to growth and learning.

Dr. Lee Thayer suggests that people can either operate in the “learning mode” or the “knowing mode” at any point in time. In learning mode, we are open to changing our views and even our beliefs. In knowing mode, we are rigid and unyielding to change. There are times when the need for decisiveness should temporarily suspend our curiosity, but in the majority of our time we should be functioning in the learning mode.



*The Cycle of Uncertainty and Action suggests that we should observe problems or opportunities with 100% curiosity – no predispositions. Then, move to assessment – where you filter your observations with experience in order to formulate a decision – and then act with the full force of your conviction – or violent certainty in order to execute with confidence. Then assess your results by bringing experience again back to balance with your curiosity. Finally, stand back and observe the situation again without the bias of experience – and ask – what can we learn that we need to know?*

Our ability to learn anything is constrained by our ability to comprehend what we need to know, however, that is not what encumbers most people's learning. More often we are constrained by our unwillingness to be curious, our fears around being wrong and our discomfort around demonstrating vulnerability. The belief that knowledge is power suggests that curiosity demonstrates powerlessness.

To the extent that we might mistake leadership for power, operating in the knowing mode might seem preferable. But when we understand that the strength of a leader is measured by their competence, and what they must accomplish can best be driven by inspiration over manipulation or intimidation, it becomes clear that operating in the learning mode not only serves the leader's best interest – but also, by being an exemplar of this behavior, serves the best interest of the organization and enhances the vitality of its enterprise value.

**The quality of the decisions you make is determined by the quality of the questions you ask.**

Powerful questions are those that are unbridled by fear of either the answers themselves or the inherent vulnerability most people associate with not knowing. Questions are not just the genesis of learning, they are also the product. *Real power lies in asking powerful questions and being, adaptive, creative and agile in our thinking in order to learn from the answers we find that challenge the beliefs we hold.*

Self-competence can be assessed using the following performance indicators:

- Curiosity: How do you demonstrate functioning in the learning mode (as opposed to the knowing mode)?
  - What qualities are exhibited in terms of
    - humility
    - adaptiveness –
      - where and why has change occurred?
    - cognitive empathy –
      - what is your capacity to influence others?
    - affective empathy –
      - how effectively do you express and exhibit what you care about – and connect to what others care about?

## 2. Driving Organizational-Competence

**Competent organizations are those that accomplish what they were designed and built to do.** Their competence is a function of competent leadership, competent performers on every level and competent systems that support the performance needed to fulfill its purpose.

Whether the current leadership are the original architects – or have arrived long after the organization was constructed, the role of the leadership is to ensure that the organization is provisioned in order to maintain a sustainable competitive advantage. Resilience and leadership in competitive markets is a key factor in driving enterprise value.

**All organizations compete against adversaries.** Some are external political or market pressures, and some, like dysfunction and incompetence are like diseases that attack the organization from within itself. It is through how the organization is provisioned that leaders influence the performance of its people. And it is the performance of the organization that determines whether or not the leader is competent.

**It is always the organization that makes a leader successful and not the other way around.** Leadership is responsible for ensuring that the organization can succeed in serving its aims – but it is the organization that must accomplish whatever is necessary to do so.

The two components of organizational competence are:

1. Resources
2. Systems

Resourcing amounts to ensuring that the people within the organization are properly equipped to accomplish their tasks and fulfill their role in moving the organization forward in alignment with its purpose. This involves providing both the tools and training needed: again, the tool is only as good as the hands it is in.

**Provisioning the organization is also a function of having the proper level of talent and experience in place.** It suggests that organizations depend on their being competent people in every role.

**Organizations must have clearly defined standards for the competencies needed for every role.** These are provisioned through Role Descriptions, Performance Goals and Learning Plans that ensure that the skill and knowledge the organization requires are both available and free to deploy. These are functions detailed in the People-Making-Competence section below.

### Systems are what enable or impede the performance of competent people.

Systems do not replace competence – they only serve to amplify the competence (or incompetence) of what they are intended to support. Competent systems are smart systems. All other systems might be considered to be “dumb systems.”

#### An Overview of Smart Vs. Dumb Systems

	Competent People	Incompetent People
<b>Smart Systems</b>	<ul style="list-style-type: none"> <li>• High Performance</li> <li>• High Engagement</li> <li>• Increasing Competence</li> <li>• Systems evolve to become elastic and more robust</li> <li>• People become <i>Bricoleurs</i></li> </ul>	<ul style="list-style-type: none"> <li>• Marginal Performance</li> <li>• Disengagement – dependence on the systems w/o ownership of problems or personal responsibility</li> <li>• System Failure</li> </ul>
<b>Dumb Systems</b>	<ul style="list-style-type: none"> <li>• Compromised and Deteriorating Performance</li> <li>• Frustration leading to placing talent flight risk or burn-out</li> <li>• Incompetence overtakes competence</li> <li>• Systems Freeze, Break or Dissolve</li> </ul>	<ul style="list-style-type: none"> <li>• Non-Performance</li> <li>• Mediocrity is the status quo</li> <li>• Everyone hides behind dysfunction</li> <li>• Excuses become the currency of commerce</li> <li>• Bankruptcy is not only inevitable – it is a compassionate resolution</li> </ul>

All systems are interdependent with competent people who build, maintain or operate them. Even fully automated systems are undermined by incompetence. The more complex the automation, the greater the need for competent design and maintenance.

Organizational-Competence can be assessed using the following performance indicators:

- Resources –
  - Is the effort (or organization) provisioned for the journey it is on? Does it have the required resources in the tools, capital (real, human and reputation) to effectively accomplish what it was designed and built to do?
  - Is it clear what would be achieved and would be necessary to accomplish in order to be a High-Performance Organization – meaning:
    - *One that does what “it” does- better than any other, is always adapting to the environment while constantly improving its competencies – in order to maintain a sustainable competitive advantage.*
- Systems –
  - Are the systems in place enabling the organization to function in service to its great worthy cause – or noble purpose?
  - Do these systems support performance momentum – in driving Trust, Loyalty and Advocacy of all stakeholders?
  - Are there requisite systems in place for enhancing the function of competent people in the performance of their roles?
  - Are systems that measure other systems calibrated for supporting or guiding the correct and best (most efficacious) outcomes?

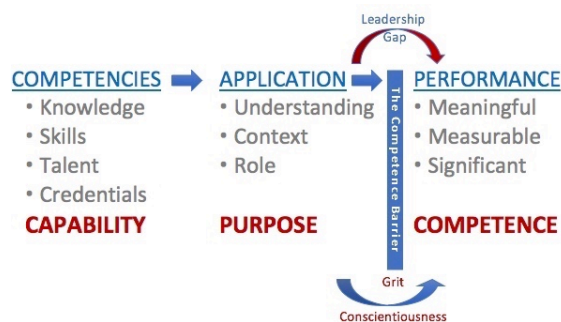
### 3. Driving People-Competence (people-making)

Good leaders focus on creating other leaders. A core competence to leadership is the development of competence in others – specifically ensuring that those they lead are competent in the roles they play in the organization’s or cause’s indelible purpose. This is critical to maintaining sustainable continuity of an enterprise as a driver of its value.

The greatest risk to a leader’s functional competence in this area is the tendency to default the people they are charged with developing. The job of leadership is to identify the potential of people, even when those people do not see it within themselves, and then cause that potential to develop and be fully realized.

The trap is in how we learn to care. When we care about people we must take care not to care for them. In other words, we care about people by making it necessary and possible for them to take care of themselves – which includes their performance in their roles.

It is perfectly acceptable to care for people who are unable to care for themselves, but unwise to care for those who are simply unwilling. Caring about people amounts to leading them to where they find the inspiration to make themselves competent.



This entails managing the standards for competencies and for the meaning of the organization’s purpose to the extent that you can lead people to where they become inspired to be fully conscientious and demonstrate the grit needed to push themselves across the leadership gap. This is how they find their way towards the level of performance that will expose their competence through their accomplishments.

People-Making / Competence can be assessed using the following performance indicators:

- Are the people on the ship in the positions they ought to be in – with their oars in the water, an understanding of how and when to row, and a stake in the velocity (the speed and direction) of the organization or effort?
- Is it possible and necessary for all people to connect their thinking, behavior and actions to defined accomplishments that are meaningful, significant and positive?
- Does an understanding of the role one performs set aspirational levels of results that inspire and demand learning and growth?
- Are there clear performance goals based on the role-descriptions people guide themselves by?
- Do all performers embody learning plans that guide their ability to aim for and increase their fullest potential every day?

#### 4. Driving Meaning-Management/Communication Competence

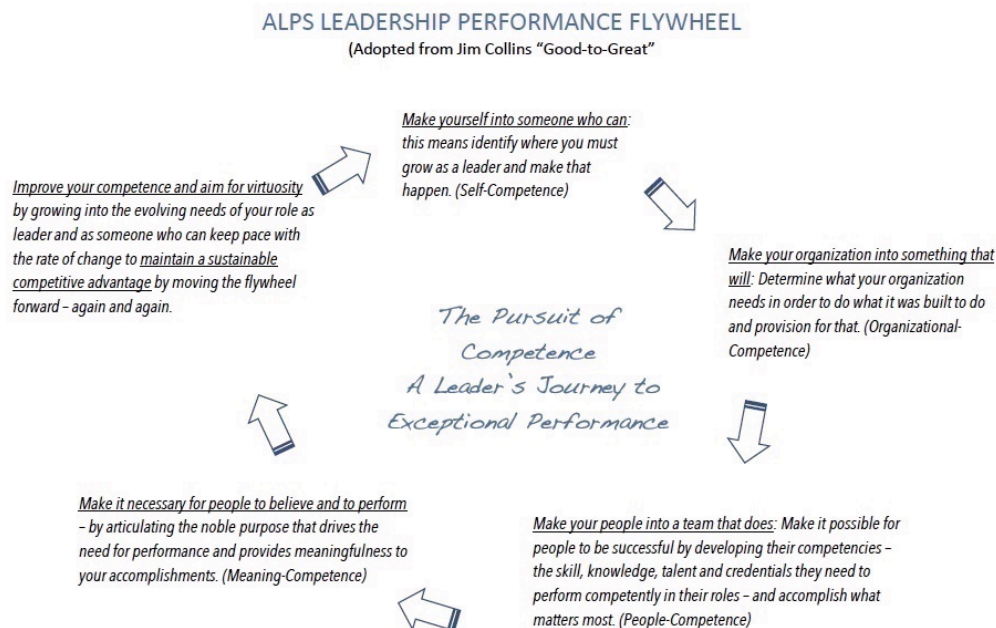
The ability to articulate purpose and manage the meaning that inspires people to perform - lives at the core of an enterprise’s intrinsic value. It drives the value-creation through all means of transaction: From customers, to supply-chain partners, to employees and your industry peers—a clear understanding of meaning and purpose is what shapes the behaviors that define your reputation in the eyes of others.

Meaning and purpose are not exclusively communicated in what we say or what is published. Silence can be powerful. What we choose not to say can express more clearly what is most important.

A leader’s questions control an organizations narrative much more effectively than speeches and missives. Actions may speak louder than words, but who you are and why you do what you do is far more persuasive than anything you might craft and stage. The efficacy of communication is in the ability to impact how people feel – either by intensifying what they believe or even changing their minds.

Powerful communication inspires curiosity and ignites the inspiration that elevates human performance – and the value that they can create.

Enterprise value is a direct derivative of leadership’s values. When people align around purpose with a sense of duty to the organization and its accomplishments – new leaders can emerge who will carry the organizations mission forward, making it possible to transition value from one leader or leadership team to the next.



This is how the leadership value-creation-flywheel operates.

*By delivering exceptional performance – organizations not only create a powerful basis in profits – but an even greater power and leverage in the multiples they can realize under the guidance of fully competent leadership.*

## APPENDICES:

### The Seven Value Drivers Behind Leadership Competence KPIs

1. It is the organization that makes the leader successful, not the other way around.
2. You don't manage people, you manage things. You lead people.
3. Performance is a function of what you accomplish, not what you do.
4. Competence is what drives meaningful, significant accomplishment and there is no competence in the absence of accomplishment.
5. Competencies do not equal competence. The function of leadership is to transform competencies into competence by inspiring a sense of purpose that informs our habits of thinking and the actions we take.
6. Purpose only has power when it is noble and indelible. A noble purpose is one that places the needs of others over the needs of yourself and indelible means that you don't have a purpose, it has you.
7. What gets measured gets done: leadership is a thing that we can measure and manage.

### ABOUT THE AUTHOR

**Phil Liebman, MLAS is the Founder and CEO at ALPS Leadership Inc.** He is a Fellow at the Thayer Institute for Performance Virtuosity, a successful serial entrepreneur, author, professional speaker and has coached and mentored successful CEOs and business leaders and facilitated Peer Groups for Vistage International since 2004.

Phil is a recognized thought-leader on developing individual and organizational performance through *the pursuit of competence: the drive for meaningful accomplishment*. His passion for eliminating the incompetence and dysfunction in the world and for elevating human potential and spirit has resulted in invitations to speak throughout North America and Europe. His message and methods revolve around the belief that real human joy is the result of purposeful accomplishment – and that we can transform competencies into real competence and create a more functional and more joyful world.

### ABOUT ALPS LEADERSHIP

We help those who choose to lead High-Performance Organizations become the kind of leaders who can and do — by performing at their fullest potential in order to make their organization, their community, and the world a sustainably better and more joy-filled place within which to live, learn and grow.

ALPS Leadership is dedicated to substantially increasing individual and organizational performance by helping make possible the competent leadership, talent and smart operational systems that are necessary in order to build and grow sustainable, fully competent companies.

Our mission to help people transform themselves into competent leaders and their companies into High-Performance Organizations.