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Take 5: Keys to increasing value of a business owner's estate

by Sandy Blaha

Just as talented top stars are key to the success of any theatrical production, the strength of a company's top stars -- its management team -- determines up to 30 percent of its value.

Although most business owners know that sales, target markets, competition and other factors contribute to valuation, many don't realize the bottom-line value of management teams.

Fewer still understand that the most effective way to strengthen their management team -- and ultimately achieve their goal of increased estate value -- isn't necessarily through expensive classes, trust-building ropes and ladders courses, or highly paid execs,

Rather, business owners who learn how to ally human and organizational capital -- in other words, people and strategy -- are the ones who will see valuation skyrocket.

Take the case of one local architectural design firm. Three years ago, the business sported revenue of $2.5 million with 26 employees, generating a 10 percent net profit. The owner wore all the hats, and struggled to attract and retain top-notch employees. The business' valuation stood at $1.2 million.

Jump ahead to 2007. The same business generated $4.5 million in revenue and a 20 percent net profit, with 30 top-performing (and happy) employees and five new minority stockholders. The owner is working in areas that provide the best fit -- and fulfillment -- for him. The business' valuation now stands at $2.5 million.

The road to these kinds of results can be especially bumpy for companies in the architectural, engineering and construction (AEC) industry, as leaders in those companies typically have limited business training. Yet owners who can learn to weave five basic steps into their systems will see significant changes to the bottom line.

- Star search -- To develop a top management team, business owners must become talent scouts and learn to assess the true strengths of their employees.

True entrepreneurs -- those who can take over and eventually run firms -- aren't always obvious. Generally ambitious, willing to take risks, and able to push others to move quickly, they look at the bigger picture rather than only execute on direction.

To a business owner, this can show up as difficult behavior that belies the corporate setting.

Leader style assessments, administered by trained professionals, can help identify entrepreneurial talent, and assess the strengths of the other three key employee groups: operations, technical and teaching/managerial.

- The show must go on -- In the theater, every key role has an understudy. Business should be no different. Educating individuals in the four key employee groups on how to delegate and develop understudies -- and then making sure it happens -- is critical to creating a management team.

The hardest part of understudy development falls to the owner, as he or she must be the first to learn to let go of some responsibilities. With so much emphasis placed on completing projects to perfection for clients, this area can be particularly challenging for the AEC industry. From owners to entry-level staff, trusting someone else to perform a given task is inherently very difficult.

Role-transition exercises, leadership-development workshops with team-building focus, and individual coaching can help. Most businesses will find they may need to fill some positions, make some structural changes, and incorporate strategic planning between the owner and identified leaders.

- Practice makes perfect -- Once the cast is assembled and the roles are assigned, it's crucial to define expectations for leaders and their understudies in clear, quantitative, and qualitative terms. This creates a climate ripe for success and makes it easier to establish accountability.

Regularly scheduled peer and managerial evaluations, along with continual conversations, will lead to a strong management team -- and directly enhance estate value.

The ability to hold these often-difficult conversations is the skill set most often lacking in the AEC industry. In professional service industries such as architecture and engineering, it's common to avoid these conversations altogether, resulting in the retention of poor-performing staff.

- The critics are raving -- The theater has critics to gauge how successful a production will be. In the business world, key performance indicators (KPIs) serve as early indicators of a company's performance.

Whether it's a gauge of how much work is in the pipeline or client-satisfaction ratings, these predictive measures will help an owner determine if the business will stay healthy. Smart owners will make sure the leadership team focuses on only one key area each quarter, working as a team toward a singular goal.

- A box-office hit -- When it comes to overall financial management, including performance compensation, AEC firms have had a hard time, given owners' limited business backgrounds.

Developing and implementing sophisticated systems incorporating opportunities for minority stock purchase and companywide goals will take a management team into true leadership -- a sure sign of growth.

Making these types of systemic changes isn't quick, simple or natural in the AEC industry. But the results speak for themselves. When owners and leaders move into their highest-value roles and work toward identified, specific goals, it's common to see 20 percent to 40 percent annual revenue growth.

The owner's estate value has nowhere to go but up, putting the business in the spotlight.

Sandy Blaha, president of Denver-based Sandy Blaha Performance Consulting, is an exit-planning expert specializing in the architecture, engineering and construction industry. Reach her at sb@sandyblahaperformanceconsulting.com or 303-260-6480