RonaldBlueTrust®

Wisdom for Wealth. *For Life.*®

Enhancing Value

Practically Applying a Biblical Worldview to Build a Healthy, Valuable Company

Introduction

This white paper offers counsel for business owners who are interested in conducting their company's operations with a biblical worldview. While there are many facets and components to adopting this approach, owners should pay attention to:

1. **The Right Mindset -** In Psalm 24:1, David explains that "the earth is the Lord's and the fullness thereof." With the mindset that God owns everything in the world, including businesses, company owners must understand that they are actually stewards of the business, not the true owner.
2. **The Right Perspective -** The Parable of the Talents (Matthew 25:19-29) and Minas (Luke 19:15-26) teach that when God gives something to be stewarded, He expects a return and accountability from the steward.
3. **The Right Purpose -** In Matthew 5:16, Jesus challenges His followers to let their lights so shine before men that their good works are seen and men turn to God and praise Him. This is the purpose that God expects every business to fulfill.

When thinking about the value of a company, financial value (e.g., enterprise value, equity value, etc.) usually comes to mind. However, enhancing the total value of a business from a biblical worldview involves both financial and relational capital – the social and spiritual resources needed to positively impact people for now and eternity.

While financial value can be measured through the increase in a company's financial capital (e.g. enterprise value). Social value is measured through the increase in a company's influence on society (e.g., brand, community influence, employee wellness and morale, etc.), and spiritual value is measured through the increase in a company's Kingdom impact (e.g. generosity, discipleship, evangelism, etc.).

Approach to Enhancing a Company's Value

In 1 Corinthians 3:10-15, Paul challenges followers of Christ to be sure that what they are building will make an eternal impact. There are eight principles that can be derived from God's word that, when practically applied to a business's operations, help ensure a business is operating as its Creator intended. We believe that companies that are intentional about these principles are more likely to enjoy:

- Faster and more sustainable growth
- Improved valuation compared to peers
- Reduced risk due to diversification and scalability

The rest of this white paper will identify these eight principles and how to integrate them into a business.

Legacy

A company is bigger than any one individual, and a business's ownership and leadership teams must focus on building a business designed to survive across generations. We teach that the three most important factors that contribute to a company's legacy are:

1) Recognizing that God owns the business
2) Developing the company's mission, core values and vision
3) Structuring the business as a covenantal organization

Building a purpose driven business allows the focus to be on bringing glory to God and cultivating a vibrant environment that attracts talented people – whether they believe what you believe or not. A covenantal culture is a major contributor to a company staying true to its mission and creating its desired legacy.

A. Creating a Covenantal Culture

In our experience, the healthiest companies are structured in a covenantal manner. What does this mean? In short, a company agrees ahead of time how it is going to conduct business and creates an environment where employees are able to flourish by using the skills, gifts and abilities that God has given them to create, innovate and produce.

This intentionally cultivated work environment emphasizes **organizational clarity** in:

- Corporate clarity - Everyone in the organization, regardless of position, knows the company's cause, purpose or reason for being.
- Structural clarity - A well designed organizational structure provides clarity for team members regarding who is in charge. This knowledge also provides insight into employees' potential career plans.
- Role clarity - Each team member knows what is expected of them and what their responsibilities are. Without role clarity, morale may be affected.
- Process clarity - The key human resource and operational functions within an organization (e.g. recruiting, hiring and onboarding, performance management, professional development, compensation and rewards, etc.) reflect its core values and are aligned with the company's vision.
- Communication clarity - This involves the content, frequency and modes of communication. A company's ability to communicate effectively will determine the efficacy of all the efforts discussed so far.
- Brand clarity – The messages a company communicates about itself (e.g. website, Facebook page, etc.) accurately reflect the why, how and what of the business.

Leadership clarity defines the standards for how company leaders interact with their team members in a covenantal manner that builds healthy relationships. Successful leaders model the following actions:

- Following humbly
- Inspiring strategically
- Managing individually
- Influencing lovingly

Relational Clarity defines the standards by which employees interact in a healthy way with each other and typically exhibits the 'ABCs' of team behavior:

- Aiming to achieve
- Buying into something bigger
- Collaborating generatively
- Developing strong relationships
- Engaging in constructive conflict resolution

Stewardship

Stewardship is important because it helps a company stay true to its mission by using God-given resources for God-given purposes. Drifting away from mission is a risk that faces all companies. The impact of a Kingdom-minded company drifting off of mission has eternal implications. We believe the three most important factors that contribute to effective stewardship in a Kingdom-minded business include:

1) **Building a strong, sustainable financial position for the company**
2) **Instituting a business transition strategy that incorporate generational thinking**
3) **Managing the company's relationships and influence by developing a business generosity plan**

The primary ways that stewardship applies to a company's operations is through building a sustainable financial position, thinking generationally about the business, and developing a business generosity plan.

A. Building a Sustainable Financial Position

Financial hardship often forces owners to prioritize financial needs over accomplishing the company's mission. Creating financial margin and sustainable practices can help avoid this risk. Every company's balance sheet is different, but in general companies should:

- Have a financial plan
- Maintain healthy levels of liquidity
- Limit the use of term debt
- Keep their cost structure as variable as possible

B. Thinking Generationally

God's word shows us that He thinks generationally. When He created the Nation of Israel, He had more in mind than Abraham or Moses. When He created His church, He had more in mind than Peter or Paul. Likewise, He has more in mind for companies than the current owner. Thinking generationally seeks to align company thinking with God's thinking, as well as manage the expectations of the business's different stakeholders.

A generational business plan positions a business to thrive and provides clear communication for:

- Intentionally selecting future owners that align with the business's mission
- Defining the process for the transfer of ownership to take place
- Determining the plan to implement these transfers

C. Developing a Business Generosity Plan

Using the Parable of the Talents in Matthew 25 as a guide, business owners can use the skills, gifts and abilities that God has blessed them with to steward:

1. Employee relationships
2. Client relationships
3. Vendor relationships
4. Community and brand influence
5. Company profits

A business generosity plan integrates the passions and callings of the company's leaders and owners with what we call the business's "Kingdom Positioning" – its customized plan to steward each of the company's five talents.

A generosity plan has many benefits, including:

- Cultivating dependable, consistent relationships between a company and its employees, clients, vendors and community
- Strengthening a company's operating performance by improving employee morale, increasing customer retention and building reliable supply chains

Wisdom

Wisdom in business is learning from mistakes and using that knowledge to reduce the risk of uncertainty and increase the chance of success. Creating a "wisdom structure" is integral for improving the company's strategic thinking and moves the business's growth prospects beyond merely the capacity of the current owner. In our view, the three most important benefits of integrating wisdom in a Kingdom-minded business are:

1) Strengthening a company's insight

2) Sharpening a business's strategic focus

3) Providing the company with accountability

Two key components to a wisdom structure are a corporate governance structure and a strategic plan.

A. Building Corporate Governance Structures

Corporate governance structures provide "covering" for a business's current and future owners by supporting corporate decision making and gaining access to outside sources of wisdom and strategic knowledge. The continuum of governance structures includes:

- Informal associations (e.g., banker, CPA, attorney, etc.)
- Marketplace ministries (e.g., C12, Convene, Truth at Work, etc.)
- Advisory boards
- Fiduciary boards / Board of Directors

The size and operational focus of the company determines whether the company needs a formal or informal governance structure.

B. Following a Strategic Plan

In addition to having a vision, it's important to know how the vision will be accomplished through a strategic plan. Before the strategic plan can be identified, a company needs to clarify the following guardrails that will guide and direct the process of identifying its strategic direction:

- The type of work it does
- Its value proposition
- Its target market

These guardrails frame the strategic options available to accomplish the company's vision. Once these parameters are identified, the final step of a strategic plan is to turn these options into action items to be accomplished in a timeframe of one to three years.

Leadership

Everything rises and falls on leadership: leaders can make or break a business. While executing the company's strategic vision typically falls to the company president, making good operational decisions and developing strong teams is every leader's responsibility. Effective leadership involves strengthening a company's strategic execution by:

1) **Executing the company's strategic vision**
2) **Making good operational decisions**
3) **Developing strong teams**

The primary ways that leadership applies to a company's operations is through building healthy leadership teams and by developing tactical (or operational) continuity.

A. Building Healthy Leadership Teams

A healthy team dynamic is needed for a company's leaders to accomplish the business's strategy. Leaders that can work together are able to make requisite tactical decisions needed to sustain effective and efficient operations. Healthy leadership teams routinely make better, faster decisions that generate superior results compared to dysfunctional teams. Leadership team health is developed when teams exhibit the ABCs of relationship clarity (see Covenantal Culture).

B. Developing Tactical Continuity

Continuity plans prepare a business to survive changes (e.g. death, disability, promotion, resignation, etc.) to its leadership teams that could dramatically impact its operations. A good continuity plan identifies likely successors for strategic leadership positions, focuses on preparing and equipping them to eventually assume a leadership role, and determines a plan for the orderly transfer of leadership roles.

All leaders are only in their role for a limited period of time, so every leader must be intentional about replacing themselves. This not only protects businesses from disruption due to changes in leadership, but it promotes employee engagement as the next generation of leaders grows through the resulting discipleship process.

Human Productivity

Genesis 1:26-28 states that man is made in God's image as co-creators with Him. This means that people have been given skills, gifts and abilities in order to create, innovate and produce. Further evidence of this is seen in Ephesians 2:10 where Paul shares that God created His followers for good works that He has prepared in advance for them to do.

Applying these concepts to economics, we see that future growth is increased by cultivating environments for people to flourish and become all that God made them to be. In addition to creating the covenantal culture we've described, human productivity is fostered by preparing and equipping the next generation of leaders, developing a scalable workforce and measuring and enhancing productivity.

A. Preparing and Equipping the Next Generation of Leaders

Tremendous value can be created by proactively developing internal talent. But, promotion based on production without preparation is a detriment to value creation. The qualities necessary to lead and manage people are developed over longer periods of practice, repetition and experience accompanied by coaching and feedback. This leadership development strategy can be informal or formal in nature; however, it needs to be intentional and proactive.

B. Developing a Scalable Workforce

It is not enough to hire talented people with the competency to fulfill today's work: businesses also need to hire people with the capacity to fulfill the work of tomorrow. A company can execute both current and future strategic plans by building a scalable human resource and talent management process that continually focuses on cultivating an environment for these team members to flourish.

C. Measuring and Enhancing Productivity

Businesses must begin measuring productivity with specific measurements as an indicator of value creation. The richness of the data is more actionable when management, support and sales teams are assessed separately. Once baseline measurements have been identified, companies can begin working to enhance productivity. The two primary ways that businesses enhance productivity is through strengthening employee morale and developing properly aligned compensation and incentive plans.

Inherent Value

Corporate finance teaches that capital is effectively utilized when the value it creates is in excess of its cost of the capital (or measure of risk). Company decisions about how to allocate capital have an "inherent value" that can be positive or negative. From a biblical view, the impact of the fall of man in Genesis 3 can lead a business to make unhealthy decisions based on eagerness for gain, or the fear of loss, which can negatively impact a company's value. The proper assessment of this risk needs to be incorporated into a disciplined decision-making process in order to increase the likelihood of a company making decisions that have a positive impact. The primary ways for a company to make decisions with a positive inherent value are to strengthen its strategic planning process and to improve its decision making.

A. Strengthening the Strategic Planning Process

There is no universally accepted standard for strategic plans; most usually focus on general goals that a company wants to accomplish over the next three to five years. However, to create greater inherent value, a more rigorous strategic planning process is needed that includes:

- Connection to the vision - A company's strategic plan should be focused on helping it accomplish its vision. If the company's vision answers the 'what,' then the company's strategy should answer the 'how.' How will the company utilize God-given resources to accomplish a God-sized task?
- A Focus on future growth – A company's strategic plan should address the business operations that influence future growth – sales, marketing, talent development, structural capacity and customer development.
- Risk mitigation plans – A company's strategic plan should take into consideration the major risks that could undermine its execution. If these risks are not considered, then they cannot be mitigated.
- Actionable and measurable goals – A company's strategic plan may cover a three- to five-year time horizon, but it should ultimately be broken down into 90-day tasks. These tasks should have clearly defined scopes, with clearly assigned task forces and clearly scheduled accountability.

The ultimate success of a rigorous strategic planning process is whether it results in a plan that can be executed. After all, executing the strategic plan is much more important than simply developing the plan. It's better to have an average strategic plan that's well-executed than an excellent strategic plan with average execution.

B. Improving Decision Making

Strategic and tactical decisions are made every day within a business. Some of these decisions create value, while others destroy value. Clearly a business owner who wants to be a good steward of their business will seek to make as many decisions that create value as possible. Strategic decisions accomplish this goal by:

- Avoiding biases
- Objectively identifying and measuring desired outcomes
- Considering all available options
- Controlling for known risks

Tactical decisions accomplish this goal when the expected reward of the decision exceeds the risk of the decision (adjusted for time). A business that follows a disciplined decision-making process, like the ones outlined above, will clearly determine the inherent value of an opportunity and make decisions that support building a valuable company.

Uncertainty

Like individuals, companies suffer from the implications of sin from the Fall of man. Uncertainty about the future is one of the microeconomic risks that sin created. Companies can mitigate this risk by developing ownership independence, improving their business planning, saving and investing, and reviewing legal risks.

A. Developing Ownership Independence

Ownership independence is defined as a business that is independent of its owner and an owner that is independent of their business. A company that is independent of its owner(s) is self-sustaining, because it is positioned to grow beyond its owner's capacities and survive any adverse events that impact the owner. A company becomes independent of its owner(s) by:

- Strengthening its finances
- Building strategic and tactical leaders
- Creating a proven lead generation engine

An owner that is independent of its business can focus on making decisions that prioritize the long-term health and value of the business. Effective personal planning positions a business owner to not rely on:

- The current income and benefits from the business
- Distributions from the business
- Sale proceeds from the business

Ownership independence positions the business to thrive in an uncertain environment by creating necessary margin, continuity and flexibility.

B. Improving Business Planning

Beyond the corporate planning involved in creating ownership independence, a business can reduce its risk of uncertainty by proactively planning to improve its:

- Capitalization - The more that a company's capitalization comes from equity, the more flexibility it will have to take advantage of opportunities and to overcome adverse circumstances.
- Debt usage - The wise use of debt (e.g. variable vs. fixed, used to purchase productive assets, etc.) reduces a company's dependence on future results.
- Profit margins - Increased profit margins provide options for a company to manage changing client and vendor relationships.
- Working capital management - Efficient working capital management helps ensure that company cash is collected as quickly as possible, reducing a business's reliance on the future health of its clients.

Each of these key areas contributes significantly to increasing or decreasing the business's risk profile.

C. Reviewing Legal Risks

Every company faces legal risks that need to be understood and managed. A legal audit will help identify what risks a particular company faces such as pending litigation, intellectual property protection, contracts/agreements and government filings, licenses and disclosures. Once the company has identified its unique risks, it can develop a strategy to minimize the future impacts from these risks on business operations.

Instability

In addition to uncertainty about the future, sin creates risks that destabilize economies and industries. Due to this risk of instability, a company's provisions against uncertainty may fail. This macroeconomic risk can be lessened by strengthening the company's business model (e.g., revenue, labor, material costs, etc.), fortifying its revenue model and increasing diversification within the business.

A. Fortifying a Revenue Model

Revenue is highly susceptible to the risk of instability. An effective recurring revenue model can consistently generate and close new leads that have a value in excess of the company's client acquisition cost. In addition, a strong customer retention plan, coupled with high quality products and customer service, can help retain clients over long periods of time and protect a business from destabilizing forces in the economy.

B. Increasing Diversification

The concept of diversification can be applied to a company's customer base (source of revenue) and its supply chain (source of materials). A company can do a wonderful job of mitigating its internal risks, but it is still exposed to the risks of its customers and vendors. This risk is amplified when a client or vendor concentration is present. However, when a company cultivates a diversified customer base, it limits the sales and cash flow impact of a client that experiences financial hardship. Likewise, when a company builds a diversified supply chain, its operations are not over dependent on any one vendor (e.g. quantity, quality, price, delivery time, etc.). Another advantage of diversification is that it reduces any one customer's "buyer power" and any one vendor's "supplier power."

Conclusion

This document details what a Christian business owner can do enhance a company's value by faithfully applying biblical principles to answer questions like:

- Why was the company created?
- What is the business doing with the resources it has been given?
- How is the owner building a company bigger than themselves?
- How strong are the company's current and future leaders?
- Are the company's employees thriving?
- Does the company make disciplined decisions that create value?
- Are the salient business risks being mitigated?

From a biblical worldview, the job of business owners is not to create outcomes, but to be faithful. Faithfulness is applying biblical principles to how businesses are operated and trusting God with the outcomes.

About the Business Consulting Division and Ronald Blue Trust

Ronald Blue Trust's Business Consulting Division focuses on helping companies determine purpose (developing mission, core values and vision), enhance value (conducting strategic planning and creating an engaging culture), and preserve legacy (preparing transition plans and financial forecasts). Ronald Blue Trust advisors apply biblical wisdom and technical expertise to help clients make wise financial decisions to experience clarity and confidence and leave a lasting legacy.