

# **Theory E<sup>2</sup>: Working with Entrepreneurs in Closely-Held Enterprises III. The Appreciation of Entrepreneurship and Enterprise**

**William Bergquist, Ph.D.**

I suggest throughout this series of essays that the compounding of entrepreneurship and enterprise occurs through the process of appreciation. In this essay, I explore the many dimensions of appreciation and then provide a way in which an appreciative process can be engaged in what I have identified as the investment in human capital. I begin by identifying several personal attitudes of appreciation and then turn to organization-wide attitudes of appreciation—especially as these personal and organizational attitudes are engaged in a closely-held enterprise.

## **Personal Attitudes of Appreciation**

These are three ways in which the term *appreciation* is commonly used. They are each related to the processes of appreciation. We appreciate other people through attempting to understand them. We also appreciate other people through valuing them and often seeing them in a new light. A third way of appreciating another person is by being thoughtful and considerate in acknowledging their contributions to the organization.

## **Understanding Another Person**

Fundamentally, the process of appreciation refers to efforts made to gain a clearer understanding of another person's perspective. We come to appreciate the point of view being offered by our colleagues or the situation in which other people find themselves. This appreciation, in turn, comes not from detached observation, but rather from direct engagement. One gains knowledge from an appreciative perspective by "identifying with the observed." (Harmon, 1990, p. 43)

Compassion rather than objectivity is critical. We care about the people and groups with whom we work as appreciative managers, consultants, coaches or leaders working with closely-held enterprises. Neutrality is inappropriate in such a setting. Compassion, however, does not imply either a loss of discipline or a loss of boundaries between one's own perspective and the perspective held by the other person. *Appreciation is deeply caring about and caring for another person's problems, without personally taking on their problems.* We can appreciate another person's problems and assist this person in solving these problems without losing our personal identity.

### **Valuing Another Person**

In some circles, the process of appreciation refers to an increase in worth or value. A stock portfolio "appreciates" in value. This use of the term appreciation would seem, on the surface, to be economic in character. Value, however, can be assigned in non-financial terms— especially in closely-held enterprises. Van Gogh looked at a vase of sunflowers. He appreciated these flowers by rendering a painting of them. In doing so, he increased the aesthetic value of these flowers for everyone. Van Gogh similarly appreciated and brought new value to his friends through his friendship: "Van Gogh did not merely articulate admiration for his friend: He created new values and new ways of seeing the world through the very act of valuing." (Cooperrider, 1990, p. 123)

Peter Vaill (1990, p. 323) recounts a scene from *Lawrence of Arabia* in which Lawrence tells a British Colonel that his job at the Arab camp was to "appreciate the situation." By appreciating the situation, Lawrence assessed and then added credibility to the Arab cause, much as a knowledgeable jeweler or art appraiser can increase the value of a diamond or painting through nothing more than the thoughtful appraisal. Lawrence's appreciation of the Arab situation, in turn, helped to produce a new level of courage and ambition on the part of the Arab communities with which Lawrence was associated. *Appreciative organizations create value, courage and ambition among those who are associated with the organization.* This is a key point in the process of organizational appreciation.

## **Recognizing the Contributions Made by Another Person**

From yet another perspective, the process of appreciation concerns our recognition of the contributions that have been made by another person: "I appreciate the efforts you have made in getting this project started." Sometimes this sense of appreciation is reflected in the special recognition we give an administrator for a particularly successful project or in the bouquet of flowers we leave with our administrative assistant on National Secretary's Day.

These occasional forms of recognition can be gratifying to those receiving the praise. However, appreciation can be exhibited in an even more constructive, ongoing manner through the daily interactions between an entrepreneurial leader and his associates in a closely-held enterprise. *The consistent acknowledgment of contributions is embedded in mutual respect and it is founded on an appreciative attitude regarding the nature and purpose of work.* If the entrepreneurial leader "sees work as the means whereby a person creates oneself (that is, one's identity and personality) and creates community (that is, social relations), then the accountability structure becomes one of nurturing and mentoring." (Cummings and Anton, 1990, p. 259)

## **Organizational Attitudes of Appreciation**

The term appreciation is now being used regarding not only individuals but also organizational settings. The term has become closely aligned with shifts in organizational attitude. There are three ways in which the attitude of appreciation is exhibited in a closely-held enterprise. This enterprise is considered to be appreciative if one finds a positive image of the future within the organization, especially if this image infuses strategic planning in the organization with meaning and purpose.

The closely-held enterprise is also appreciative if a concerted effort is being made to recognize the distinct strengths and potentials of people working within this organization. Finally, a closely-held enterprise is appreciative if its employees consistently value and seek to establish cooperative relationships and recognize the mutual benefits that can be derived from this cooperation.

## **Establishing a Positive Organizational Image of the Future**

This fourth use of the term appreciation relates both to individual attitudes and organizational climate. *Appreciative organizations lean into the future.* We grow to appreciate a closely-held enterprise by investing it with optimism. In an appreciative enterprise there is a pervasive sense of hope about the future for this organization and the valuable role it can play in society. “Organization wide affirmation of the positive future is the single most important act that a system can engage in if its real aim is to bring to fruition a new and better future.” (Cooperrider, 1990, p. 119)

Effective entrepreneurial leaders, in such a setting, will be “not only concerned with what is but also with what might be.” (Frost and Egri, 1990, p. 305) Employees come to appreciate their own role and that played by other members of the organization regarding contributions that enable the organization to realize its purposes and values. Tim Russert, the former moderator of *Meet the Press*, disclosed a phrase used by his father: “fail forwards.”—that is learn from our mistakes and trace out the implications of the lessons learned from our failures for our future actions. (Russert, 2004)

## **Recognizing Distinctive Strengths and Competencies**

Appreciation in an intimate organizational setting—such as is found in closely-held enterprises—also refers to recognition of the distinct strengths and potentials of individuals working within the organization. An appreciative culture is forged when an emphasis is placed on the realization of inherent potential and the uncovering of latent strengths, rather than on the identification of weaknesses or deficits. This is a critical attitudinal variable. People and organizations “do not need to be fixed. They need constant reaffirmation.” (Cooperrider, 1990, p. 120)

Even in a context of competition, appreciative attitude transforms envy into learning and transforms personal achievement into a sense of overall purpose and value. The essayist, Roger Rosenblatt (1997), reveals just such a process in candidly describing his sense of competition with other writers. He suggests that his sense of admiration for the work of other writers serve a critical function in his own life:

Part of the satisfaction in becoming an admirer of the competition is that it allows you to wonder how someone else did something well, so that you might imitate it—steal it, to be blunt. But the best part is that it shows you that there are things you will never learn to do, skills and tricks that are out of your range, an entire imagination that is out of your range. The news may be disappointing on a personal level, but in terms of the cosmos, it is strangely gratifying. One sits among the works of one's contemporaries as in a planetarium, head all the way back, eyes gazing up at heavenly matter that is all the more beautiful for being unreachable. Am I growing up?

Paradoxically, at the point that people are fully appreciated and reaffirmed they tend to live up to their newly acclaimed talents and drive, just as they *live down* to their depreciated sense of self if constantly criticized or undervalued. Carl Rogers suggested many years ago that people are least likely to change if they are being asked to change. *People are more likely to change when they have received positive regard.* Appreciation and positive regard certainly seem to be closely related concepts.

### **Recognizing the Value of Cooperation**

A final mode of appreciation is evident in the attitude of cooperation in a closely-held enterprise. *An organization is appreciative when efforts are made to form cooperative relationships and recognize the mutual benefits that can be derived from this cooperation.* A culture of appreciation provides organizational integration. It is the glue that holds a closely-held enterprise together while the enterprise is growing and differentiating into distinctive units of responsibility. The appreciative perspective is particularly important when there are significant differences in vision, values or other cultural elements among members of an organization or among independent organizations that seek to work together. If genuine and productive cooperation is to take place, then appreciation must embrace both judgments about reality and judgments about value.

This brief analysis clearly indicates that appreciation is a rich—and provocative—concept. The term has several closely related meanings that tend to build on one another. We shall make

use of each of these meanings while describing six strategies of Theory E<sup>2</sup> in this series of essays.

## **Appreciation and the Release of Human Capital**

Appreciation is not always easy to engage. We should appreciate those times when appreciation is found in our closely-held organizations. Considering all the changes occurring in contemporary societies throughout the world, it is often easy to overlook the indispensable role that people play in organizations. The people-factor in organizations is particularly challenging, for several profound changes are occurring that are not easily understood or addressed. It is not so much the content of the work people do in organizations that has changed; rather, it is the structures and processes of the work that have changed in a profound and irreversible manner. It is the way in which we relate to one another in an organizational setting that is being transformed. We can handle the new technology and the new products and services being asked of our customers. What we can't handle very well are the new organizational forms that are being created in order to contain these new technologies, products and services.

At the heart of the matter resides a fundamental tenant regarding *the appreciation of human capital in an organization and ways in which this appreciation leads to the powerful, energizing release of this human capital for the achievement of organizational success*. To better understand the nature of this tenant we turn to the field of economics and, more specifically, to the work of an eminent and highly influential international economist, Hernando De Soto.

De Soto has offered an insightful analysis of the reasons why some countries in the world have capitalist economies that thrive, while other countries have been unsuccessful in their enactment of capitalism. As a Peruvian who has consulted with the leaders of many third world and former communist countries, De Soto is fully aware of the problems encountered by these leaders in seeking to embrace Western capitalism. He believes, however, that the problem resides not in the absence of capital in these countries, but rather in the formal and legal processes whereby the vast capital that already exists in these countries is recognized.

In making his case for new strategies to bring these countries to economic prosperity, De Soto (2000, p. 45) offers the analogy of a lake that holds unrealized potential:

Consider a mountain lake. We can think about this lake in its immediate physical context and see some primary uses for it, such as canoeing and fishing. But when we think about this same lake as an engineer would by focusing on its capacity to generate energy as an additional value beyond the lake's natural state as a body of water, we suddenly see the potential created by the lake's elevated position.

De Soto suggests that many third world countries are like the lake. They possess many assets that have never been fully recognized. These assets can't be fully used as leverage for new investments, can't be traded on the open market, and can't be fully protected when disputes regarding ownership arise.

We propose that similar conditions exist in closely-held enterprises. They also possess resources that are rarely realized in terms of their full potential. These resources are the talents, energy, commitments, skills, ideas and knowledgeable insights that emanate from those who work in the organization. This vast human capital stands as a lake that holds deep, unrealized potential. *An appreciative organization is one that fully realizes this human resource potential, and thereby releases its human capital, in full alignment with the fundamental mission, vision, values and purposes of this organization.*

De Soto identifies two challenges confronting a third world country. First, leaders of the country must formally recognize the capital that currently exists in the country. Second, these leaders must discover or invent a mechanism for converting this capital into a sustainable form that is useful to the country and promotes the welfare of the country. Returning to the analogy of the lake, De Soto (2000, p. 45) suggests that:

The challenge for the engineer is finding out how he can create a process that allows him to convert and fix this potential into a form that can be used to do additional work. In the case of the elevated lake, that process is contained in a hydroelectric plant that allows the lake water to move rapidly downward with the force of gravity, thereby transforming the placid lake's energy potential into the kinetic energy of tumbling water. . . . As electricity, the potential energy of the placid lake is now fixed in the form necessary to produce controllable current that can be further transmitted through wire conductors to faraway places to deploy new production.

Similarly, for the entrepreneur in a closely-held enterprise, the first step is one of recognizing the exceptional competencies that already exist in his or her enterprise. The second step is to convert these competencies into fixed and sustainable forms that can further the intentions of the enterprise.

According to De Soto (2000, p. 45):

What was required [in realizing the potential of the mountain lake] was an external man-made process that allowed us, first, to identify the potential of the weight of the water to do additional work and, second, to convert this potential energy into electricity, which can then be used to create surplus value. The additional value we obtain from the lake is not a value of the lake itself (like a precious ore intrinsic to the earth) but rather a value of the man-made process *extrinsic* to the lake. It is this process that allows us to transform the lake from a fishing and canoeing kind of place into an energy-producing kind of place.

The same holds true regarding Theory E<sup>2</sup>. It is not the structures, processes or culture of the organization that make an enterprise successful. Like the lake, these elements of the enterprise only hold its potential; they are not, in and of themselves, the realization of this organization's potential. An enterprise is successful in our contemporary world, because the value of these structures, processes and culture is acknowledged. *Appreciative strategies enable the entrepreneurs in a closely-held enterprise to fully engage these structures, processes and culture in alignment with their enterprise's intention.*

De Soto (2000, p. 45) has something more to say about capital. His wisdom is directly applicable to our understanding of appreciative organizations. Like the potential energy of the mountain lake, capital is dormant until such time as it is put to use: "Bringing [capital] to life requires us to go beyond *looking* at our assets as they are to actively *thinking* about them as they could be. It requires a process for fixing an asset's economic potential into a form that can be used to initiate additional production." Similarly, it is not enough to identify and enumerate the sources of strength in an organization. It is not enough to appreciate the contributions already made, or to be made in the future, by members of an organization. An E<sup>2</sup> organization has embraced a way of "actively *thinking* about" these strengths as they might be fully engaged by the organization.

## **The Nature of Human Capital**

Human capital may seem to be a dehumanizing term. This is because the word *capital* is usually associated with money and economic values, not with people or humanistic values. Then why use the term, human capital? This seems particularly inappropriate if we are going to take an appreciative approach in addressing the challenges of contemporary organizations. People are not just numbers on a balance sheet. We can't place a price on the head of any employee.

There are several reasons for embracing the concept of human capital. First, we can return to older meanings of the word capital. During Medieval times, the word capital referred not to money but rather to livestock. The primary medieval concern about capital centered on animal husbandry. Having acquired the land, how does one create an environment, in this case, a pasture, that is conducive to health, growth and vitality? Capital in medieval times was dependent on how much land one owned. It further depended on what the landowner did with his land and with those populating this land, whether they were cattle or people. Much like the engineer facing the lake, the medieval landowner had to release the potential of his land through the raising of cattle. Otherwise the land was worthless.

The land may be beautiful to view, or it might even be a site of historical importance. But it is of no practical value to the landowner. Pastures are living systems and contemporary organizations are living systems. *We propose that capital in an E<sup>2</sup> organization is primarily concerned with people and humanistic values, rather than with money or economic values.* The potential of the contemporary enterprise is still only realized when a nurturing environment is created where human beings can thrive and find sustenance—much like the cattle of medieval pastures. Thus, we use the term *human capital* in this book to remind us of the living nature of most forms of capital extant for the past five to six hundred years.

We use the term human capital for yet another reason. Modern accounting principles identify human resources as either a financial expense or a financial liability. While land, buildings and machines are assigned a financial value and categorized as organizational assets, the salaries being paid employees are categorized as expenses. Long-term employment contracts may even be categorized as liabilities. Consequently, a financially savvy manager will recommend that machines replace employees, so that the organization's expenses can be reduced and its assets can be increased. We must counter this shortsighted assignment of employees to the deficit side of the financial ledger by repeatedly noting that the knowledge, skills and aptitudes of employees are viable and tangible assets.

Machines and buildings are not the only assets of an organization. The talents of employees also belong on the ledger. While it will be very difficult to change the standard accounting principles, it is possible for us to restore the concept of human capital and to identify the means by which this capital can be assessed and assigned a value. When we take this stance, the appreciative perspective acquires some momentum. It moves beyond the softer dimensions of appreciative inquiry. The appreciative perspective becomes

something more than a vague statement regarding the important role people play in organizations. *Appreciative entrepreneurs embrace strategies and frameworks that put human talents and machines on an equal financial footing and that place people at the heart of their enterprise rather than in a peripheral position.*

We use the term human capital for a third reason. We use this term to honor the insights offered by Hernando De Soto. He doesn't use the term appreciation, nor is he likely to be aware of the concepts that underlie our E<sup>2</sup> Theory. However, his commitment to finding and securing the wealth that is to be found among the poorest people in the world is among the most disciplined and humane form of appreciative analysis to be offered during the past decade! We hope that our own analysis of hidden human capital in closely-held enterprises does justice to De Soto's illuminating analysis of capital in underdeveloped countries.

## **The Release of Human Capital**

The word *release* has several interesting meanings, each of which helps inform the strategies being described in this book. One meaning of the word concerns the removal of barriers so that a dynamic system might move forward in a specific direction. De Soto's mountain lake illustrates this use of the term. When engineers design a system to make full use of the potential energy contained in the lake's water, they construct some device that first holds back or channels the water, then releases it through a system of turbines. In a similar manner, the role of leadership in an appreciative organization is to identify strengths in the organization. They then structure and channel these strengths, so that they might be released with maximum impact. Appreciation is not just a process of recognition; it is also a process of design. *Appreciation provides direction for the dynamic forces that operate in a closely-held enterprise.*

The word release also conveys the idea of being set free, of being unbound. Release enables a transformation from captivity to freedom. Restriction, repression and confinement are removed, as in a convict's release from prison. From our own experiences as organizational consultants and coaches, we know that the appreciative strategies offered in this book are often experienced as a release from a psychic prison for the entrepreneurs and employees who benefit from their use. We propose throughout this book that the traditional deficit approach to human resource management is outmoded in a Twenty First Century world that is filled with knowledge workers and independent contracts.

The deficit approach is destructive. It discourages innovation and depresses employee morale. It imprisons people, who yearn for liberty. De Soto proposes that poverty doesn't eliminate the accumulation of capital, it only eliminates the capacity of poor people to make use of the capital they have accumulated. Similarly, a deficit approach to human resource management doesn't eliminate the knowledge, skills and aptitude of an organization's employees; it only eliminates the capacity and willingness of these employees to reveal and make use of these competencies on behalf of the organization. An employee who is released from the prison of negativity and deficits will be released on her own recognizance. She will be free to make choices and be appreciated for distinctive contributions she makes to her organization.

A third meaning of the word release suggests yet another dimension of the appreciative organization. Release describes expansion and the act of giving out to the world. We feel a sense of release after a session of yoga or after listening to a Bach fugue. We are released from our sense of ego and self when we meditate or when we participate in an ancient ritual. We are released from our personal concerns and our preoccupation when we attend to another person, when we understand how members of another department in our organization perceive a particular event or when we can empathize with the complex challenges facing a leader in the Twenty First Century. This act of recognition and compassion resides at the heart of any act of appreciation. *We see. We understand. We honor.* This is the implicit credo of any appreciative organization.

There is a fourth meaning that comes from breaking the word into two parts: *re* and *lease*. When we examine the word from this perspective, it reveals a fundamental principle of appreciation. To *re-lease* is to reclaim or re-establish a trusting relationship. We take a new *lease* on life or renew our lease on a home or office. In appreciative organizations, we are mindful of the value inherent in rituals of re-commitment and renewal. We honor the work already done and acknowledge the contributions made by all members of the organization to its distinctive character and achievements. *Appreciative perspectives always involve re-cycling through phases of reflection and action in an enterprise.*

## Conclusions

Appreciative entrepreneurs are always learning from past successes and challenges. However, much more is required of them. To use a term introduced by Otto Scharmer (2009), these entrepreneurs must "learn

from the future.” This means that they must not only appreciatively lean into the future, but also bring an appreciative perspective to the task of learning from the past and present—both past and present successes and past and present failures (Tim Russert’s “forward failing”]. There is always rich learning to be derived from any organizational experience, be it a success or a failure. For everything there is a season.

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