# 1+1=7


## How Smart Leaders Make 7 Investments to Maximize Value

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INDIE BOOKS INTERNATIONAL, LLC
2424 VISTA WAY, SUITE 316
OCEANSIDE, CA 92054
www.indiebooksintl.com

# DEDICATION

*This book is dedicated to God, who sustains me; to my wife, who cares for me; and to my family and friends, who support me.*

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# PREFACE

One of my early assignments as an independent management consultant was to determine the value or cost of failed training for insurance agents and to present the results. If the company spent time and money to train a new agent, and the trainee left at the end of the year, what was the cost (loss) to the agency?

That was an easy assignment. I simply added the cost of hours for training, salaries, materials, and customer considerations that I had gathered from the agency and totaled those up to reach a number. At that time, twenty years ago, the minimal loss was $100,000 per failed trainee. It was a shocker for the agency; they had not made the computations before.

That experience led to another assignment: to compute the value or cost of *morale* (or lack thereof). This was a more challenging task, but to help compute this, I came up with another algorithm. From that point forward, I felt able to quantify all soft-side, intangible aspects of a business. Along the way, I became aware that businesses do not account for such intangibles. Standard financial statements do not include people as assets, even though, without people, there would *be* no business.

It was not a great leap for me to become interested in helping business leaders analyze and optimize intangible investments within enterprises, as people are investments. Thus began my journey to consider intangible investment types and their roles in creating high Return-on-Investment (ROI).

Thank you for joining me on this journey.

**Baldwin H. Tom**
**January 2018**

# CHAPTER 1

# THINK INVESTMENTS, NOT BUSINESS VALUATION


Leaders need to know hidden wealth resides in organizations: their people, their creativity, and their leveraged interactions. This book is all about helping leaders find that hidden wealth and leverage investments in their businesses to gain enhanced value and ROI.

The challenge is that many leaders do not fully appreciate the totality of where the value resides in their organizations.

If there were a way to clearly see the different investment types in a business enterprise, would you be interested?

If you answered "yes," there is good news. The goal of this book is not to provide a new way to value a business, but to show where value is typically not realized within a business. Why is this important? Because if leaders understand the seven best areas in which to invest in their companies, then they can greatly increase the value of those businesses.

Before such a discussion begins, however, it is important to address how investments (both tangible [task-side] and intangible [people-side]) fit into valuation. Standard accounting practices are available to compute and characterize tangible assets in a business. For example, the balance sheet tabulates Assets and Liabilities. Intangible investments, on the other hand, have no standard measures or tracking mechanisms.

## Where Value Hides in Plain Sight

Think of this book like a treasure map; it will help you find hidden riches or assets. The discussion begins with how accountants traditionally account for assets.

While they know how to account for tangible assets, accounting for the value of intangible assets in a business has been a historical challenge. This includes the value people bring to the company (e.g., education, training, expertise, experiences, and certifications) along with what they do to add value to an enterprise, such as building corporate knowledge (processes, procedures, norms, and inventions). In addition, intangible assets include intellectual property (e.g., patents, trademarks, and copyrights), relationships (both interpersonal and customer), and goodwill. Within this context, the concept of intellectual capital has been defined as all those intangibles that consist of people and/or are derived from a business's people.

Now consider questions that arise regarding intangible assets as they relate to the other two standard accounting statements that describe a business's financials—cash flow and income statements. How will intangible assets be entered into the cash flow statement, which tracks the inflow and outflow of a company's money? What portion of funds is obtained from the intangible component of the business, and what amount is used? For the income statement, how are revenues and expenses from intangible investments logged? Accountants are undertaking ongoing efforts to answer these questions with studies that seek to capture the intangible assets into a company's financials. Yet it will take time before the accounting community accepts and formalizes consensus on algorithms and methods. Until then, valuation of intangibles will be provided in multiple ways, or not at all.

The current solution for determining the value of intangible assets is simple. The challenge is determining agreement on how to (1) characterize the intangibles, (2) agree on numerical values for the intangibles, and (3) agree on how to incorporate intangible assets into the financials.

The first step is to consider the connection of intangible assets with intellectual capital, which is covered in the next chapter.

**There exists untapped value in every organization hidden in people and what they do.**