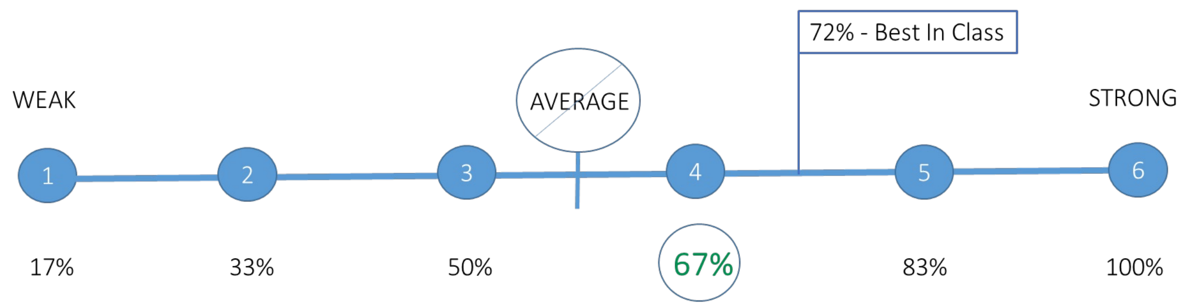
WALKING TO DESTINY

GUIDELINES FOR USING THE COMMON SENSE SCORING SYSTEM



Higher the score the Greater the Value

If you were to attend one of my Value Maturity Index Owner Roundtables™, you would participate in a group discussion with other business owners where I ask them to identify a few "value factors" that drive human capital by answering the question, "What makes strong Human Capital?" I jot down their answers on a flipchart as they shout them out. They never have any trouble coming up with them – it's intuitive and common sense. We spend 20 minutes or so collecting this information from them. A few typical answers might include:

- Experienced, tenured management
- Formalized training and education programs
- Strong benefit programs
- A regular performance review process
- Clear and concise HR policy and procedures
- Non-Compete and Non-Solicitation Agreements for key employees

Once we have the list of value factors, we score them using the Common Sense Scoring system, using the scale of one to six.

6	You are perfect. This value factor cannot be improved.
5	Your best in class meaning you are in the top 10-20% in your marketplace.
4	You are better than average and can prove it.
3	You have something; you can prove it. But it's below average.
2	You have thought about it and maybe even do it, but it is not documented. You do not have proof.
1	Not even on your radar.

Here are some guidelines for scoring the value factors:

First, value factors are scored from an outsider (a buyer or some other future owner) point of view – not yours. Our goal is to get a read on how attractive and ready to grow and transition your Human Capital is from the future owner's perspective. Remember, it's the buyer that sets the price (determines value) of your business based on their analysis of earnings potential, risk, and growth potential.

Second, most value factors score between 2 and 4. Most business owners are aware of these value factors. They intuitively do them every day. But they do not have proof. They do not have readily available written policies or procedures that describe what they do and how they do it nor measurements that prove how well they perform relative to other companies in their industry. The goal of value acceleration is to get your overall average score to 4 or 67% (4/6), otherwise known as the green zone.

Third, you cannot be average because there is NO AVERAGE. 3 is below average and 4 is above average. It's too easy to say I am average. Not being able to score you or your company average forces you to think about it deeper. You ask, "if I have to decide if I am or my company is above or below average, which way would I go and why?" When scoring you always start in the middle deciding if you are above average or below average. Once you pick a direction you keep moving in that direction until you reach your score. For example, if you can prove you are a 4 (above average) can you prove you are best in class which is a 5.

Finally, when scoring, you want to take the viewpoint of someone outside your business with an independent point of view like a buyer. How would a buyer who is viewing your business score this value factor? Buyers will want proof – they are not just going to take your word for it. For example, you might think you have above average marketing. Yet if you don't have a written marketing plan, can't prove the effectiveness of your campaigns, can't prove your marketing ROI, and don't have an up to a date CRM system, you're marketing is not above average. In fact, it's not even below average because you have no proof. Giving yourself a score of 3 means you have proof, something documented and proven, but it's just not that good. *If you do not have proof, the highest you can score is a 2.*

If you are not sure, always drop yourself to the lower number. You need to be certain. For example, if you think this value factor is a 4, but you are not sure, drop it to 3. If you cannot prove you are at least a 3, drop it to a 2. Uncertainty is a sign that you probably cannot prove it or cannot prove it well enough. Score anything you are not sure about no higher than 3. Anything 3 or below is going to be flagged for follow up. Perfection, a score of 6, is an empirical standard. Needless to say, when facilitating this process with business owners, we do not have many sixes. I think most of us with a growth mindset would agree that we could almost always get better.

Using the Human Capital value factors we defined above, let's look at an example of how you might score it and explore what your score means.

Human Capital Value Factor	Your Score	Possible Maximum Score
Experienced, tenured management	3	6
Formalized training and education programs	2	6
Strong benefit programs	3	6
A regular performance review process	4	6
Clear and concise HR policy and procedures	3	6
Non-Compete and Non-Solicitation Agreements for key employees	1	6
Total Score	**16**	**36**
Percent of Maximum Score	**50%**	

If this was you, your overall Human Capital Score using the Common Senses Scoring System would be 50% or an average of 3 out of a possible maximum average of 6. Based on what you learned in Walking to Destiny, this score would be considered a Red Flag, indicating you have very weak Human Capital. But why you might be asking and how do I improve it?

Your lowest score of 1 for the Non-Compete and Non-Solicitation Agreements for Key Employees indicated you don't have any of these for key employees and it's not even on your radar. That would be a concern to an outside buyer, and it should be a concern for you too. Why? Because it elevates risk of a key employee leaving and going to a competitor with the intellectual knowledge they learned at your company and sharing it with them and possible recruiting some of your other key employees to go with them. This would be significantly more of a concern to a buyer or other future owner of your company. And remember, when we are scoring, we take the buyer's point of view, not our own.

Your other weaknesses were lack of Formalized training and education programs (2 – well below average), and below average Experienced, tenured management, Benefits programs, and HR policies and procedures. Your score indicates you have proof of these programs, but they are just not that good; certainly not above average. Your one strength was regular performance reviews.

Finally, understand that this is a dynamic process. There is no rule that says you cannot go back and change your score. I encourage you to do so. Just remember, if you are not sure, go with the lower score. If after you follow up, you can come up with the proof, you can change it. At least once a year (I prefer every 90-180 days), go back and re-score yourself. If you have been working on making improvements in a particular value factor, go back and ask yourself, "have we made enough improvements to increase the score?"

Remember, as you raise your overall score, you will achieve a higher multiple and rise in the range of value. This can and should be measured regularly.