



Credit Risk Ready Podcast

Host Linda Keith CPA with Joel Block

How 'Invisible Capital' Helps Your Business Borrowers Succeed

Linda Keith:

Hi, this is Linda Keith CPA with Credit Risk Ready, a podcast where we interview senior credit and lending professionals from community financial institutions across the United States, their regulators, and banking advisors to better understand and mitigate credit risk.

Today we're continuing with a series of episodes with Joel Block to learn what our most-successful business clients are, or should be, considering now to solidify their successful transition or to recover from the challenges of the pandemic recession. This time we focus on what our guests call 'invisible capital:' how we think about, innovate, and align our business. For each point, we'll provide you the key strategy question that will unlock the insights to getting it right in this environment. I encourage you to use these questions in your conversations with your business borrowers and prospects to understand their plans as they are moving forward. And, perhaps, to help them by giving them food for thought. Understanding their business and how they are navigating through this recession is definitely a credit risk mitigator.

Joe Block is a longtime venture capitalist and hedge fund manager. Picture him in a real-life Shark Tank setting, like on TV. Since selling his publishing company to a Fortune 500, Joel keynotes and consults on disruption resistant success strategies. What I appreciate about Joel is that he can apply these ideas from Wall Street directly to Main Street.

Joel, welcome back.

Joel Block:

Linda, how are you?

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Linda Keith:

Hi, I'm doing very well. It's good to talk to you again. I am so happy to have you as a resource for our lending and credit professionals to really understand the back end of business and what's really going on by the kinds of questions we can ask our borrowers.

Joel Block:

Well, listen, excellent. Happy to help and happy to help you as a professional colleague.

Linda Keith:

Thank you.

Joel Block:

Let's go to town.

Linda Keith:

All right. So now, in other episodes with you, Joel, we are drawing from your report *Competing on Capital: 29 Business Trends for 2021 and Beyond*. Each of the 29 are so practical, clearly explained, very actionable. You cover five points under invisible capital. Once again, I'm just picking three for the time we have together.

So, before we dive in, would you help me understand the term 'invisible capital'?

Joel Block:

Most people think of capital as money. In my business... I'm in the money business and all bankers, we're all in the money business. As people who are in the money business, we tend to think of the most important or the only capital as being money, which is the fuel. That's what makes the engine go. But just like a carpenter, or a plumber, or any tradesperson, they have many different kinds of tools in their belt. That might include a range of pliers, and a hammer, and a... I don't know, what? A screwdriver? Whatever they have. They know how to use these tools with great precision, and they use them exactly at the right time. They use them exactly in the right way. That's what businesspeople have to learn how to do.

It's like taking the right golf club out of your bag. When you're playing a certain kind of a situation, a certain kind of a club is going to work. There are many different kinds of capital. We have financial capital. That's the first category in this report. But there are also trends that fall into the category of human capital, or intellectual capital, or, in this case, invisible capital. We'll talk about invisible capital here, right now. Those are just ideas that don't fit into other kinds of categories. I mean, we have political capital, relationship capital, social capital. There's a lot of different kinds of capital that we all have access to. We've taken five or six of those, and we developed the business trends inside of those. So that readers, particularly business readers, can really understand how these trends that I and others on Wall Street identify and really are looking for as we move forward. So that's what we're talking about.

Linda Keith:

Well, I did like the name 'invisible capital.' I didn't understand it quite at the beginning. But it is true that you can almost see the results of financial capital. You look at a balance sheet. You can get the income

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statement. You can see their marketing and what they're doing. There are so many things you can see by observation. Invisible capital, you can't necessarily see it by observation. I think you're going to figure this out by conversation and maybe looking at their trends long-term. But it's not like you can look at a report.

Joel Block:

Right. When you have your personality, your team, your staff, whoever they are, whatever level, and they're bringing ideas and things to the table: that's invisible capital. Keep in mind that companies compete on their capital. The whole report is really called *Compete on Capital*. The quality of the total package of capital is what makes a company great or not great.

You can't just have one kind of capital and say, "Here we go. Let's go to town." That just isn't going work. I mean, it doesn't work anymore. Maybe it was more important some years ago, but now it just doesn't work. What we need to do is we need to be very sensitive to the fact that there are lots of different kinds of capital, there are lots of different ways to get the job done, and we are responsible for managing all of those.

Linda Keith:

So, let's jump into the three trends we're going to look at this time. The first one is "contrarian thinking works." And you know what, Joel? This seems to like fly in the face of "don't fix it if it isn't broken," or "quit changing for change's sake," or "simplify," or "focus." Now we're saying, "But then again, contrarian thinking works." So, convinced me on this one, Joel.

Joel Block:

Well, this is one that kind of rubs a lot of people the wrong way. But after they kind of catch on to it, they don't really want to flip over, but they frequently do. We'll see how you do on this one. We'll see if we can roll you over on this one.

Linda Keith:

Alright. Give it a try.

Joel Block:

Alright, well, here we go. Here's happens is that... When I was a kid, my dad would say something, and I would respond and say something just the opposite. He always thought I was doing it just because to be spiteful or to be contrarian. I'd say, "Red;" he'd say, "Black," or whatever it was. He thought it was on purpose. But it turns out it wasn't on purpose. I just see the world in a different way.

People who see the world in a different way, frequently entrepreneurial-type people, really bring a lot of value. Frequently, in larger companies, the employee base, they're like soldiers. They do what they're told. They march along. They do their job. They go home at the end of the day. They come back, keep going the next day. They're instructed not to do a lot of thinking, just a lot of doing. In this environment where we are now, 2021, we are in a very, very sophisticated environment. We need all the thinking we can get. We need all the ideas we can get. We need all the invisible capital contribution that we can get. We need to really be questioning things. Not going along with the crowd. We need to tell the emperor what we think of his clothes.

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I mean, that's something that comes right out of our website. People say to me more than anything else when I'm advising them or telling them whatever, they can always count on me to tell the emperor what I think of his clothes. That's what contrarian thinking is. Just don't go along with the crowd. Just because the crowd says, "Yes," that's not a good reason to do it.

Let's look for flaws in our logic. One of the things that we know about our society is that people have lost a lot of their ability to think critically. The media has kind of whitewashed us in a way where we all just say something, and we're afraid to say something different. Because then there's going to be some other group of people that doesn't like what we say, and we're going to be scolded or shamed. It's almost like we live in the Puritan days where people are being shamed for things they say.

We have to get away from that in business. That doesn't work. Don't go along with the majority. Don't go along with the program. If you have a different opinion, let's say it. Let's get people in our boardrooms, let's get our executives, to think differently. Let's reward people who think differently, for bringing different ideas to the table, instead of punishing them for thinking differently. It's an attitude about rewarding people who think differently because they might have a better idea. They might not. Maybe the way you're doing it right now is fantastic. But you're not going to know if you don't really look at this issue from many different sides.

Linda Keith:

With this pandemic recession and all of the challenges we're under, this is actually a perfect time to sort of go contrarian. We actually have a real opportunity to say, "Yeah. Everything we've been doing before worked pretty good. But because everything else is so disrupted, let's take another look." It almost gives you as the manager, the business owner, whatever, just carte blanche to say, "Let's blow up everything we're thinking and at least think through: how would it be different? And would that be better for us now?"

Joel Block:

That's a great point you make. At the beginning of a pandemic, we produced some means and one of them was "reimagine everything." We created this poster, "Reimagine our industry; our businesses; our revenue streams; customers; strategies; alliances; our valuations; our timings; our partnerships; plans; lives; futures; structures; our communities; our societies; and even our whole world. Let's reimagine."

We live in an environment where it's possible to think about things in a new way. We have a possibility that hasn't existed a long time that we really are okay to rethink things. If we minimize people who have a different opinion, a contrarian opinion, we really might be missing the big picture.

I would just say that contrarians in general make a lot of money. Everybody else makes average because everybody else is the same. By the way, the contrarians can make less or more. It's not that they only make more. But everybody who thinks the same gets average and everybody who thinks different gets more or less. So, think different and get yourself up on the plus side.

Linda Keith:

Well, and I'd throw one more idea in before I actually give us the key strategy question. I was in a meeting yesterday with a continuing client, and we were really looking at the customized training I had done for their team on tax return analysis in the online format. After we'd done it, oh, twice through

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with two different groups, we wanted to get together. Just sort of debrief, see how it worked, and so forth. There was me and there were seven people from their team. I threw out my ideas and I asked each one of them to jump in. We had this conversation. Later, one of the people in it sent me an email and said something about, "Yeah, that was sort of like a trial by jury." She said it that way. I hadn't seen it that way at all. There was no negativity. I don't think there was, and I don't really think she meant it that way.

But I'm just saying, some people would think these conversations are really uncomfortable about, "How should we do it differently? Is there a better way? What worked really well? How can we fix it?" Other people might get really defensive about it and say, "Wait. I've been in this business for a long time. I know how to do it." It's really... I think about how the business owner/manager sets the tone as much as what conversation that actually happens.

Joel Block:

Listen, there's this whole new category of human resources thinking called "psychological safety." If people don't feel comfortable to express themselves, the management of the business really suffers. I mean, you've got all of these great resources. If people don't feel safe, in other words, where they can say their ideas without being chastised or made fun of, if you don't have an environment that fosters that, you know, forget about it. The bottom line is...

Listen, Warren Buffett is very well known for saying – and recessions are different times – when his hair cutter starts giving him stock advice, it's time to sell or stock the market. I've always thought the same thing. When people start telling me this or that, people that don't know a lot about these things, I know that it's time. Because you've got to go against the herd. The herd is never usually right. By the time the herd knows what's going on, it's way too late.

Linda Keith:

Yeah.

Joel Block:

I would encourage business borrowers, clients, to get out in front of the curve. They may not be perfectly right. But by the time they are exactly right, it's way too late anyway.

Joel Block:

What that means from the banker's perspective is you need to not be worried when your business borrower is thinking in a contrarian way. You need to understand what their plans are. But understand that contrarian thinking actually could be the most positive thing you could see right now.

Joel Block:

Yeah. So, let's talk about the question.

Linda Keith:

Yes. The question is... Again, you can ask this to yourself as the listener, or you can try to figure out whether you can either ask it directly of the business owner, or at least ascertain how they're thinking. The key strategy question is, "Are you questioning normal? Are you stretching for new boundaries or are

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you being complacent?" We're looking for our business borrowers to at least be questioning normal and then see where they go from there.

Alrighty. Well, that was the first one. The next step, Joel, is "the hallmark of a great idea." Now, as I read that... If you go into the business section of any bookstore, you're going to find books abound on the subject of innovation. Often they seem a little artsy-fartsy to me. I hope that's not a bad word. But Joel, you're known as like a hard-charging person. What is your take on how to move forward when you get a good idea, or an idea that might be a good one, or you're just not sure?

Joel Block:

Yeah. This is one of my favorite ones. Because I've spent my life in the idea of business. I really operate in this whole space, venture capital. I've come up with ideas. I've grown companies based on ideas that I've had. That's just been a great thing.

One of the things that I've always found to be so is I'll take my idea... Not the confidential part. If it's confidential, then you've got to do something different. But, if you have a new idea, let's say at the company, and you want to try something different, you put it out there. You talk about it. You socialize the idea. If people listen to the idea, and they say, "Oh, thanks for sharing that. By the way, I want to take a couple days off work next week," or, "I'm going to go walking for no reason," then it didn't really hit them in the face.

But what I find is that when you say an idea to somebody, and they go, "Oh my God. That's really cool. Would it be possible to do this?" Or, "How about if we tried adding this to it?" Or, "How about if we did it in this way instead?" When that happens, then you know that it's really resonating.

I find that the hallmark of a great idea is an idea that gets bigger with every person who touches it. If people are adding to your idea, then you've hit the jackpot. You're doing the right thing. So, very important to socialize your ideas. We live in a lawyer-style world where everything's got to be top secret, and we can't do all these things. Sometimes that's true. You have to be a little careful with who you're sharing. But if it's possible, and if it's the right thing for you to do at your company, then socialize your ideas.

Because you will find out really quickly from the body language of the people you're dealing with whether or not you're dealing with something that's any good. If they change the subject and move on, they're not being rude. They just say, "Thanks for sharing that. By the way, I'm going to Milwaukee next week." They didn't do it on purpose. They're just telling me honestly what they're feeling. That's their body language. But if they focus on it, they say, "Wow! That's kind of cool. Can we try this, or this, or this, or this?" You know it's a home run, and I would start moving forward in that direction. That's one of the ways that I think really, really carefully about things that I work on.

Linda Keith:

Yeah. As I read that, Joel, I gave that a name. I called it your nodding-heads-change-the-subject barometer.

Joel Block:

I'm not sure that that name is going to stick.

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Linda Keith:

It might not. It could be just my name for your stuff. That's okay. But I did just put an idea into your marketplace, Joel, and then you want to change the subject. Oh, it wasn't that good.

Alright. So, the key strategy question that a business owner/manager can be asking themselves: "What are people contributing to your ideas? Is the idea expanding and developing as more people hear it, or not?" Then I guess I immediately went to, "How are you engaging and helping others expand their ideas?"

Because I get great ideas. You and I, Joel, are in a sort of mastermind group together of people in very different businesses, except that we all have speaking, training, and presenting in connection with the business. I've gotten some amazing ideas helping other people in a completely different business. Right? We're talking about what they need. I also go, "Wow! I could somehow twirl that around a little bit and it would apply to me." This idea of incubating and expanding ideas not only for your own business, but for others. Then, what if this lending and credit professional sitting here listening to us right now became part of that incubation as well? Developed a relationship with their business borrower where the borrower had no idea they had talked to a lender.

Joel Block:

This has applications in different places, too. For example, the bank can talk to their borrowers or their clients about this, but they also can do this internally. This is one of those, "Hey, listen. We want to come up with a new kind of program," or a new kind of a lending product, or a new kind of deposit product, or whatever the thing is. If they talk about it, and people get into it, then they're on the right track. If people change the subject and don't express much interest that their body language just doesn't demonstrate they're going in the right direction. That tells you something that you need to think about and take that very seriously.

Linda Keith:

Well, I'm pretty excited about what came out of this meeting I had yesterday. Because I didn't go into that meeting with as good of an idea as I came out of that meeting. It was simply better. Because we had that conversation back and forth. Now we're going to try it. I'm quite certain once we try it, we'll come up with an even better innovation to it.

Joel Block:

Yeah. It'll keep getting better and better. That's the thing, that the idea of business, it's not a static business.

Linda Keith:

Exactly. Alright. So, that one was "the hallmark of a great idea." The last one we're going to get into here is "partnerships and joint ventures force a narrow focus." You mark this one, Joel as new for 2021. What is it and why is it new?

Joel Block:

Well, I tell companies that being specific is really important. That money follows expertise. The better job they do, they've got to keep raising the bar. I think we talked about this in a past episode. That

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they've got to keep raising the bar. They have to keep doing better. They have to keep getting more specialized.

A lot of times what happens is that companies want to do everything. Now, larger companies are really good at not doing everything. Smaller companies don't want to leave any money on the table, so they'll frequently try to do everything.

Linda Keith:

Right.

Joel Block:

For example, in baseball you have one person on the baseball team whose only job is to be the designated hitter. They bat for the pitcher. I mean, that's their only job. That's it. It's a very small job, but it's a very important job.

Part of the way that companies can get more focused and stay more clear is by working with companies that are great at the things that they're not great at. So, if you're not great at whatever the topic is, work with companies that do those things. They should be reciprocal coming to you for what you're great at and not what they're not great at. I think that the trend is that there's going to be more and more partnership between companies as companies become more and more specialized. They're either long-term partnerships or they could be short-term project-related joint ventures. It doesn't matter. But I really believe that companies put themselves at great risk if they try and do things that they're just not in the right place to do.

Linda Keith:

It's amazing to me how much energy it takes to do something you're not really good at.

Joel Block:

The repercussions are substantial. Number one is you probably aren't going to make that much money at it. Because you're going to waste time and resources because you're not good at it. Second, if you don't do a good job of being an attorney, they will be chasing you in the future and that'll cost you some money. It just isn't a great idea. Money follows expertise. Do what you're great at and outsource all the other things by finding partnerships and other relationships. You might be surprised at how profitable and powerful those kinds of relationships could be.

Linda Keith:

Our key strategy question for the business owner/manager on this one is, "What specialists do you need to work with to complement your current offerings?" That's definitely a question that not only could a lending professional ask in the conversation, but frankly, if that lending professional is really well-connected within the community, they can be the referral source to those other specialists that would take something off the table.

So, an example from my business. I don't do anything for this podcast except the interviews because I have a podcast production company that does all that. Now, can I do audio editing? I'm able to. Is that the thing I should be doing? Absolutely not.

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Joel Block:

You know, Linda, there's another application here. That is if the bank notices that one of their lending clients or otherwise is venturing into an area that they're not really well equipped to handle as best as they could, they should be quick to make the suggestion that they should find a partner. That doesn't mean that they need to introduce them to the partner or force them into that. But I think they need to be sensitive to the fact that companies don't belong doing what they're not great at doing. Even though a lot of times companies try.

Linda Keith:

Sometimes they don't realize it.

Joel Block:

They may not realize it. Right.

Linda Keith:

Well, and this strategy does call back to one we've covered in another episode called "fixed costs are a boat anchor." There are often fixed costs. Well, these things you're doing but it's not your specialty, that not only are you siphoning off your time and energy on this other thing. But there are costs involved to doing something that really isn't your core.

Joel Block:

Yeah. You may have lost some personnel over time. Maybe your skills in a certain area have diminished, where you haven't stayed up to speed or the technology has changed. You want to move away from a certain area. Don't be afraid to give up an area to stay more focused on something else that you're better at. You have to be constantly looking because... Listen, we all live on a treadmill. The world is a moving target. You want to stay sharp. You want to stay in front of whatever it is that you're great at.

Linda Keith:

Well, Joel, years ago, I had a public accounting practice. I had a tax practice. I was doing auditing. I had a variety of things, and I was doing training for business and banking. It was really hard to walk away from the tax practice because that was a revenue generator. Right? It's like, "Oh, my gosh. Really? Am I going to stop doing something that makes money?" But it also took way too much time and had too many costs involved. So, it was smart to do but it was hard to do.

Joel Block:

I can totally relate to this. It is not easy to walk away from some cash flow. But just because the money is green, doesn't mean it's the right shade of green. It could be light green, and you what you want to go for the more-green.

Linda Keith:

I definitely want more-green.

Joel Block:

I think of money in shades. You know, like better money is a darker shade of green.

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Linda Keith:

The other thing, Joel, is now that I'm really quite narrowed into working with lending credit professionals, online at this point because of the pandemic, I'm just better at what I do for them than I was when I was so spread. I'm actually having more of an impact for my clients at the same time that I'm having a more clear business for myself.

Joel Block:

Yeah, that's absolutely an outcome. I'm not surprised to hear that. So that's great news.

Linda Keith:

Well, so as usual, Joel, we have left some great points on the table. But we have not left them out because the other 26 points and four other categories in your report *Competing on Capital: 29 Business Trends for 2021 and Beyond* are available in the show notes. A link to that to request that report. Also, a link to Joel's podcast Profit from the Inside: Straight Talk on Business and Profits with Insiders in the Know.

Hey, thank you, Joel.

Joel Block:

Hey, Linda. Well, thank you for having me again. Appreciate being here.

Linda Keith:

Thanks for joining us on the credit risk ready podcast. Subscribe, comment, or share on social media to stay connected and spread the word. Join me next time as we bring our bank, our customers, and our communities through the recession safe and sound.

Take care.

Resources

Winners take the Inside Track. Here's the intel you need to join them...

- The Business Trend Report for 2021:
Competing on Capital: 29 Business Trends for 2021 and Beyond
<http://bit.ly/Bullseye-Trend2021>
- Podcast:
Profit from the Inside: Straight Talk on Business and Profits with Insiders in the Know
<https://bullseyecap.com/index.php/blog/>

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About Joel Block

Joel's a futurist and longtime venture capitalist/hedge fund manager (gobbledygook for professional investor) who lives in a Shark Tank world like on TV. Since selling his publishing company to a Fortune 500 company, Joel's cage-rattling keynotes expose Wall Street insights and the inside track on high-velocity innovation, empowering business executives and their teams to "Disrupt Their Competitors' Future."

Savvy industry leaders come to Joel for the high-impact advisory services that drive our disruption-resistant success strategies. His unique approach to innovative business model development helps structure, implement, and enable sustained results.

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About Linda Keith

Linda Keith, CPA, draws on her 30-plus years of experience consulting with and training lending institutions; background in public accounting; 15-plus years as CFO of the family residential construction company; and experience as an examiner with the Washington State Auditor's Office and as adjunct faculty in Accounting Principles and Managerial Accounting to help lending and credit professionals say "yes" to good loans.

Of course, you know those are not consecutive years or she'd be over 100 by now!

Linda is known by her clients to be both practical and funny. In fact, there is a movement afoot to change the 'P' in CPA to stand for 'Playful'. The fact is people absorb ideas and learn better when they are having a little bit of fun. So, Linda brings the fun along with her practical knowledge and depth of understanding to provide credit analysis training and presentations that make a difference.

She is the founder of Lenders Online Training, a virtual classroom approach to improving tax return and financial statement analysis capabilities; the host of the Credit Risk Ready Podcast; and a consultant/trainer on credit risk to banks and credit unions across the country.

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Podcast: Assessing, Managing and Mitigating Credit Risk and
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