

HOW TO EARN A BILLION

OR

THE INTELLECTUAL CAPITAL OF AN ENTREPRENEUR

A.YU. Gribov

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Translated by Brendan Kiernan

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About the book

This book was written for millionaires. Using systems analysis it shows the necessary and sufficient elements of the intellectual capital of an entrepreneur (ICE) that guarantee supersuccess in business. The entrepreneurial experience outlined in the book allows one to see components of success that earlier, perhaps, seemed less significant and meaningful, but which, with an attentive second look, can give a boost to reach a new level of success.

The book contains a critique of Marxist economic theory, pointing out its failure to include a theory of value creation for a parameter as fundamentally important as an entrepreneurs’ investment of intellectual capital.

*Dedicated to the memory of Sergei Aleksandrovich
Mitrofanov, a remarkable scholar and wonderful
teacher who taught systems thinking.*

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Long discussions with the entrepreneur Vladimir Muzychenkov were very useful for the book. His examples appear in the text.

An enormous thank you also goes to Mikhail Safonov who compiled a wonderful graphical depiction of the mental map of the intellectual capital of an entrepreneur.

I am grateful to my son Nikolay for his help compiling charts of the dependence of capital assets on the intellectual capital of an entrepreneur.

New in the Second Edition

In addition to a number of corrections and the addition of charts, and examples and quotations from some remarkable people, the work underwent the following changes.

In Chapter 1 the mechanistic model of the brain is expanded with a description of demands both to the elements of the model and its functional principles. Diagrams illustrating the genesis of a business method and the business itself have been added to the section «Human Intellectual capital».

Chapter 2's subsection "The decline of industrial capital" was expanded with material on "undermining" technologies, a new subsection was added, "Marxism's mistakes," which offers a new approach to understanding capital's essence, added value, the pricing of labor resources, and the need to consider the intellectual capital of the entrepreneur in valuation.

In "Knowledge and its measure" a chart has been added of the interaction of various parts of an entrepreneur's brain in the process of creating or analyzing a business model.

In Chapter 3, the sections "How to make considered decisions," "Belief," and "Propaganda" were expanded and new subsections, "Television," and "Breaking patterns" were added.

In Chapter 4, the section "Ill-gotten gains take life from their owner" is expanded with an explanation that debunks the stereotype of the entrepreneur as a likely criminal.

In Chapter 7 the section "Stupidity and laziness" is expanded to include a rule for interaction of intellect in a collective.

In Chapter 8, significant additions were made to the sections "Pareto's Law," "Iterated results of Pareto's Law," and principled reworking was done on the section "Pareto's Principle in sociology"

where a conclusion is drawn about the foundational role of management of effective work processes and the consequent principle of the division of incomes among workers. Also, fundamental rework was done on the section "Iterated results of Pareto's Law" and, especially, "How much property do the poor own." The section "Today's situation" is expanded with subsections on "A Comparison of demagogic plutocracy and the communist model," "Methods for redistributing tax receipts for the use of the elite," and "Personnel problems of plutocracy."

A section has been added before the Afterword, "Answers to complex questions."

Preface

*Since our times are harsher,
Than a blockbuster,
We need tales stronger,
Than Goethe's "Faust"!*

Timur Shaov. *Tales of our Time*¹

This work in no way pretends to be the ultimate truth. It is merely a milestone in a discussion of some length.

This book was written, first of all, for millionaires. The entrepreneurial experience outlined here allows them to see components of success that earlier, perhaps, seemed to them less significant and meaningful, but which, with an attentive second look, can give them a boost to achieve a new level of success.

This book can be useful for mid-level entrepreneurs. It is hoped that having read it, they will be able to work out the reasons for their lack of success or insufficiently fast growth.

This book is not really intended for a young audience, given the difficulty of accepting a number of its conclusions if unequipped with substantial life experience. However, if one considers it useful for young people to read Dostoevsky's *Crime and Punishment* even before they are 20, then this book is sure to do them no harm.

This book, it seems, will be in demand by parents and, more likely, by grandmothers and grandfathers. Where it aligns with their own life experience, it will help them raise successful children and grandchildren.

This book is intended for economic theoreticians, including those who have never been entrepreneurs. In it, first, are brought to light some inaccuracies in theories of capital and added value, and a principally new analysis of the process of value creation is presented. Second, it harshly criticizes the routinely accepted thesis that "all fortunes are earned dishonestly."

¹ Shaov T. Tales of our Time. URL: <http://shaov.kulichki.com/texts/legendy.html>

This book attempts to show that this is not true “in all cases.” On the contrary, “fortunes earned dishonestly are not durable.” A legal path to wealth exists, a form of collective gratitude for goods and services produced for society. And moreover there is an established algorithm for earning a fortune honorably. This book is an attempt to lay out even just a part of this established algorithm on the basis of experience, and thus is “a child of painful mistakes.”²

² “Working Class Hero.” “I think that this is a revolutionary song. In the sense that it is written for workers, genuine workers, not for sentimental whores or refined perverts. It is somewhat like “Give Peace a Chance,” however, in that it may not be correctly understood by everyone. The song is intended for “working class heroes” like me, upstarts from below moving into the middle class. I went that path and decided to issue my own sort of warning for those who hope to succeed.” John Lennon. URL: http://www.personbio.com/quote.php?id_info=152”

Chapter 1. Intellectual Capital of the Entrepreneur

A good advisor is better than any wealth.

Socrates

The relationship of intellectual capital and the intellectual capital of an entrepreneur

Intellectual capital

More than one weighty tome could be written on intellectual capital, but this book limits itself to a definition in the Russian language version of Wikipedia.

Intellectual capital—knowledge, practices and productive experience of concrete people and also intangible assets including patents, data bases, software, trade marks, etc., which are used productively with the goal of profit maximization and other economic and technical goals. The sum of the knowledge of a company's workers and / or the organization's mechanisms for increasing the sum of it knowledge, that is, everything that supports it economic competitiveness.³

Simpler definitions describe intellectual capital as based on the ties of structured knowledge, capabilities that have the potential for development, and the creation of value or knowledge that can be converted to value.

³ URL: [https://ru.wikipedia.org/wiki/Интеллектуальный капитал](https://ru.wikipedia.org/wiki/Интеллектуальный_капитал)

The best example of such conversion is the difference between the value of Microsoft’s liquid assets and its market capitalization in 1999. It amounted to more than two orders of magnitude (100 times). This difference was based on intellectual assets, the great majority of which were directly tied to the company’s personnel.⁴

Resource typology of a firm’s intellectual capital

Human	Structural		Market-based	
Holdings	Holdings	Assets	Holdings	Assets
Knowledge	Databases	Databases	Trademarks	Goodwill:
Education	Methodologies	Knowledge bases	Contracts and agreements:	Trademarks,
Training	Software	Software	Franchising, licensing	Company name,
Methodologies	Corporate culture	Patents on inventions, industrial and prototypes	Consumer loyalty	Geographical distinctions,
Experience	Management strategy	Copyrights	Business alliances	Quality awards, Brand names,
Skills	Communications	Information technology	Order book	Franchises
Acquaintances and connections	Information technology	Know-how: commercial, technological, financial	Relationships with financial professionals	Licenses
				Contracts

The identification of intellectual capital as an asset like other forms of capital, industrial, real estate, financial, and even human capital, represented great progress. Academic economists and businessmen had been trying to define the existence of hidden preconditions for the development of companies, preconditions they had sensed but had been unable to express qualitatively or quantitatively.

The definition of intellectual capital made this possible. Today, no one doubts that a company's market value can be many multiples of its

⁴ Duhnich Yu. Intellectual capital. URL: <http://www.smart-edu.com/intellektualnyy-kapital.html>

liquid assets in cases where the company has significant intellectual capital.

The Tobin coefficient is applied to estimate the integrated value of intellectual capital. The relationship between the market price of the company to the replacement cost of its real assets (buildings, structures, tools and equipment, inventories and also cash on account with an adjustment for debt) is called the Tobin coefficient to honor the economist who first proposed analyzing this relationship.

A firm's market price is most accurately known when it is bought by another company. In 1988 the company Phillip Morris bought Kraft for \$12.9 billion. At that time, the value of Kraft's buildings, other structures, and inventories was only \$1.3B, and the remainder of the purchase price (\$11.6 billion) was the value of the trade mark, relationships, marketing potential, and the knowledge and experience of 51,000 employees. Intangibles made up more than 90% of the company's price.

In June 1995 the acquisition rumors came true when IBM bought Lotus for \$3.5 billion in cash in a hostile takeover. The price raised eyebrows and so did the vision of laid-back Lotus, the first company to support an AIDS walk (1986) and to grant benefits for same-sex partners (1992), with its daycare center and family-friendly policies, as part of white-shirt-and-tie, buttoned down IBM. For knowledge-intensive firms in the software and internet technology industries the Tobin coefficient can reach a value in the hundreds.

Differentiating Alienable and Inalienable Intellectual Capital

Intellectual capital can be divided into two basic types depending on the possibility of separating it from the person who created and possesses it.

Alienable intellectual capital consists of things like:

1. Alienable intellectual capital—that which can be sold with rights to the property lost forever. For example:
 - 1.1. patents;
 - 1.2. trade marks;
 - 1.3. exclusive property rights to copy (copyrights).
2. Copyable intellectual capital—that which can be sold to a limited group of people while not losing the right to sell to additional people. In turn, it can be categorized as:
 - 2.1. easily copied:
 - 2.1.1. software licenses;
 - 2.1.2. audio file licenses;
 - 2.1.3. films;
 - 2.2. copyable with difficulty: knowledge and practices that have been “drummed into the heads” of people through education

Roughly speaking, **alienable intellectual capital is knowledge in current circulation that has value.**

Alienable intellectual capital exists apart from a person and, consistent with existing laws, can be alienated for the use of others. In jurisprudence alienable intellectual capital is called sepearable authorial rights.

Inalienable intellectual capital is a person's ability to think quickly and accurately, creating in the process of thought new, valuable knowledge. More correctly it would be called **human intellectual capital**.

Human intellectual capital cannot be separated from a person. It is, precisely, his brain. The organization of his brain. In jurisprudence

inalienable authorial rights, authorship for example, is called intangible authorial rights. But jurisprudence says nothing, and in principle *cannot* say anything about the rights of a person to his brain inasmuch as this right can belong only to the person himself. But it is just this brain that is a unique “means of production,” that creates knowledge as a product, and, therefore, is valuable.

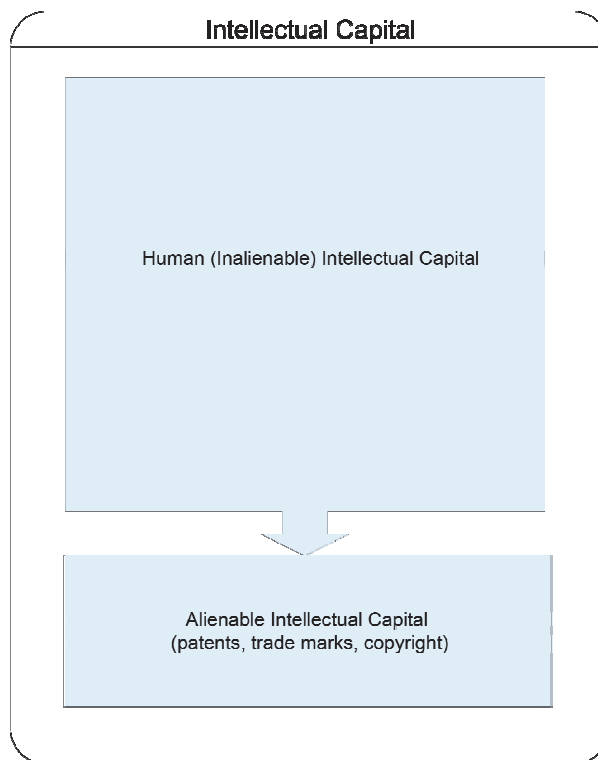
Human intellectual capital is inseparable from a person as its vessel and consists, among other things, of experience that is impossible to impart to others and individual mastery, which is inherent in a concrete specialist and indivisible from his identity.

Human intellectual capital cannot be bought.

Human Intellectual Capital

Human intellectual capital is the ability to produce, accumulate and apply knowledge that has value.

Human intellectual capital is differentiated from intellectual capital just as the means of production are different than the product.



“Intellect becomes a real asset when under the influence of a freely acting force a brain creates something useful with a defined form: a list of evidence, a database, the description of a process and so forth.”⁵

⁵ Stewart T.A. Intellectual Capital. The New Wealth of Organizations. N.Y.: Currency Doubleday. 1997. P.67.

Components of human intellectual capital

Although human intellectual capital cannot be bought, it can be improved. If you consider the brain a type of computer and divide it into a “database” (memory) and a “processor,” one can work with the “database” to accumulate knowledge. Part of this knowledge must be learned through study, part comes only with experience.

So, you see, a “processor”, the ability to think quickly and accurately, making timely, correct, and precise decisions, can be improved only through constant exercise, problem-solving, thinking, and training through a demanding mental workload.

Only the process of education and self-education can increase the value of human intellectual capital, the rate of growth depending on the length and intensity of such activities.

The concept of the intellectual capital of the entrepreneur (ICE)

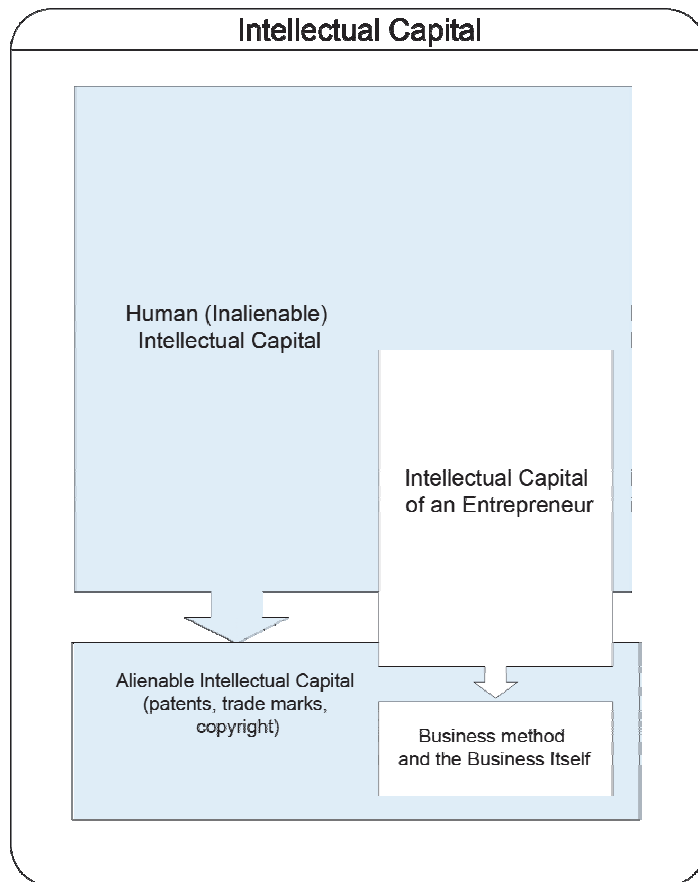
Using human intellectual capital as a starting point, one can define the intellectual capital of an entrepreneur (ICE) as human capital used for entrepreneurship.

When Beethoven wrote the “Moonlight Sonata,” his human intellectual capital (his brain) produced the intellectual capital “Moonlight Sonata.” But the intellectual capital was not entrepreneurial since its value could not be accessed immediately.

But an entrepreneur who rents a concert hall, sells tickets, and organizes a commercial performance of “Moonlight Sonata” is right in the thick of the entrepreneurial process. Using his intellectual capital, the entrepreneur creates not only value for “Moonlight Sonata” but a concert business that itself has a value as well as a process that can continue to create value.

A worker bringing his team leader or manager “a suggestion for increasing efficiency through the use of a new tool” is already at the first stage of ICE: human intellectual capital (the worker’s brain) is focused on entrepreneurship, and produces intellectual capital “a suggestion for increasing efficiency through the use of a new tool,” there by making it

possible to economize on materials or raise the quality level and / or the quantity produced.



But when an entrepreneur learns something about a new business idea or creates a new business concept, or, most importantly, starts a new business (applies his idea and builds a factory, founds an agency, opens a supermarket), ICE (the entrepreneur's brain) produces not only the intellectual capital "Procedure for a functioning business," but the business itself, a generator of goods and services. And It is precisely the startup process and the successful functioning of a business as an independent entity that result from the application of an entrepreneur's intellectual capital.

The intellectual capital of an entrepreneur is the ability of an entrepreneur's brain to produce thoughts, ideas, and know-how that, when applied in productive activity, are capable of creating value.

Definition

The intellectual capital of an entrepreneur (ICE) is something:

- 1) in the entrepreneur's head;**
- 2) allowing him to establish a successful business ;**
- 3) inaccessible, as such, to co-workers.**

In the definition given here one of the key words is “positive.” It signifies that one can be called an entrepreneur only if his activities are successful, earn a profit, either immediately or in the form of the growth of the capitalization of the business. But the main characteristic is growth. If the activity produces a loss then it cannot be called entrepreneurial. It is entertainment, a hobby, philanthropy or something else, but not entrepreneurship and not business.

ICE is the ability to produce, to recognize, and to accumulate intellectual capital, but, most importantly, it is the willingness to apply this value-creating knowledge, through the process of entrepreneurialism, to create added value.

An entrepreneur:

- generates intellectual capital in the field of entrepreneurship;
- supports intellectual capital in the field of entrepreneurship;
- “uses” intellectual capital in the field of entrepreneurship (engineer).

What differentiates an entrepreneur from a typical person?

The ability to create added value by establishing a system of managerial, personnel, marketing, purchasing, and production technologies.



ICE also includes the understanding of market demand; and the ability to sell products at a premium price; and an understanding of the components market; and the ability to buy raw materials inexpensively and arrange for their continuous supply; the ability to arrange financing; an ability to manage the workforce; and the ability to protect know-how, and much more.

This list could be continued, but in any case the real issue here is the intellectual activity of a person capable of envisioning all stages of production before they will be realized through concrete action.

The strength (power) of an entrepreneur's intellectual capital

Quite a few people are capable of entrepreneurship. But not all can succeed, and only a tiny few will achieve supersuccess. What differentiates someone who sells snacks on the street from the owner of a bank? Americans say: "Work hard and creatively and you'll succeed, you will become a millionaire."

But why, in general, are there more than just a few millionaires but only a tiny number of billionaires?

What kind of intellectual capital does an entrepreneur need not only for a successful business, but for supersuccess?

There are real life examples where one individual made a company supersuccessful, and following their exit the company became no better than average.

Henry Ford, who wrote the book on the automobile market, founded such a company, which lost its position after it was handed over to his son.

Why did Apple lose its market position in 1985 when Steve Jobs left the company? Why did Apple become such a big success after he returned in 1997?

Why was Sony Corporation recognized as a style leader in the audio and video sectors under Akio Morita? And why, in 1994, when he left the company, did Sony lose its position as the unconditional market leader?

What kind of "action programs" does Warren Buffett have, that, as an average investor, he earns many billions while millions of other typical investors cannot duplicate his success?

And, similarly, what did Steven Elop do wrong to have "driven" Nokia's worth from \$30 billion to \$5 billion?

What was so special that these people knew that others did not?

What is the magic secret that allows anyone to achieve supersuccess and "earn a billion"?

The Secret to a Billion

Homo doctus in se semper divitias habet.

An educated man always has inner wealth.

Publilius Syrus.
*Sententiae*⁶

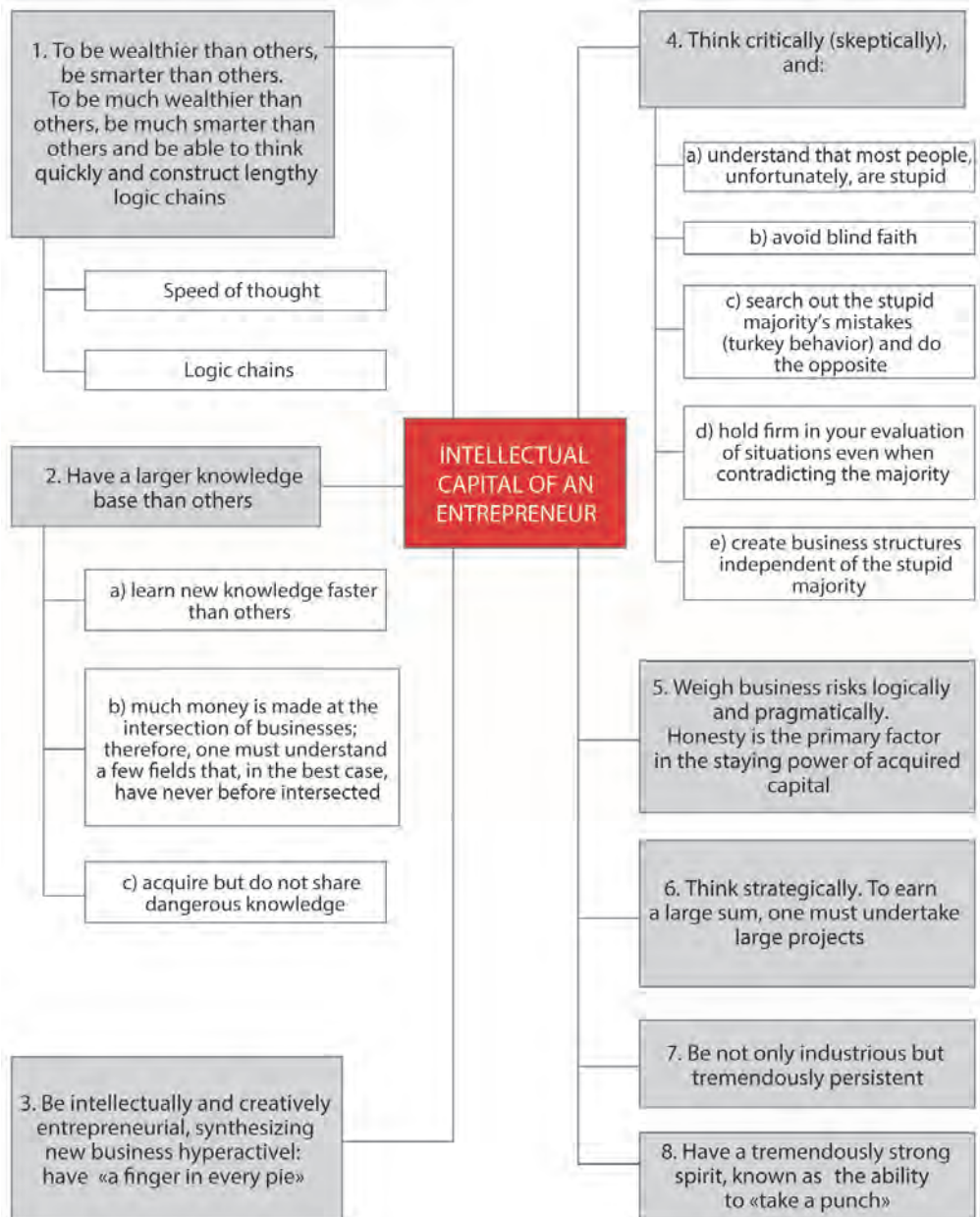
Study earnestly for continued success through intelligence.

Goethe, *Faust*

At a minimum, supersuccessful ICE consists of the following elements.

1. To be richer than others you need to be smarter than others. To be substantially richer than others, one must be much smarter than others and be able to think faster and construct longer logic chains.
2. You must have a much larger knowledge base than others.
 - a. You must be able to learn faster than others.
 - b. Because much money is made where businesses intersect, you should be familiar with a few formerly unassociated sciences or activities.
 - c. You must acquire, but do not share dangerous knowledge
3. You need to be intellectually and creatively adventurous, synthesizing new businesses, and hyperactive to the point that you have “a finger in every pie.”
4. One needs to think critically (skeptically):
 - a. understanding that the majority of people are, unfortunately, stupid;
 - b. eliminate blind faith;
 - c. search out the mistakes of the stupid majority (turkey flock mentality), in order to do the opposite;

⁶ P. Syrus. *Sententiae*. URL: <http://megdu.ru/nuda/maksimi-i-sentencii/stranica-5.html>



- d. hold fast in the evaluation of a situation, especially if you are contradicting the majority;
- e. create a business structure independent of the stupid majority.
- 5. One must logically and pragmatically weigh the risks of doing business and only get into businesses where expected profits are many times higher than expected risks
 - a. Honor is the principal factor in the longevity of acquired capital.
- 6. One must think strategically. To earn a lot of money, one must undertake only large scale projects.
- 7. One must not only be industrious but extraordinarily persistent.
- 8. One needs a gigantically tough spirit, known as the ability to “take a punch.”

The qualities listed above must always be present in an entrepreneur regardless whether he organizes production in a small studio or a large enterprise.

The secret to being a supersuccessful entrepreneur (billionaire) is developing all of these qualities together and to a high level.

Those who do not develop one or another of these qualities to the required level will not be supersuccessful, but merely successful, not a billionaire, just a millionaire.

It is important to note that the absence of any of these qualities can lead to complete ruin, leaving the entrepreneur bankrupt.

A number of researchers have identified other qualities needed for success, including communicativeness, the ability to “network” and develop “connections.” This quality is, doubtless, significant. But it is not critical. An entrepreneur's “connections”, in the absence of sufficient intellect or analytical skepticism, will not be sufficient to achieve supersuccess. In the best possible case any supersuccess will be short lived. He will lose his billions. And there are many examples of “well connected” businessmen who have failed because of inadequate risk assessment. This is confirmed in the English saying “easy come easy go.”

Nota bene!

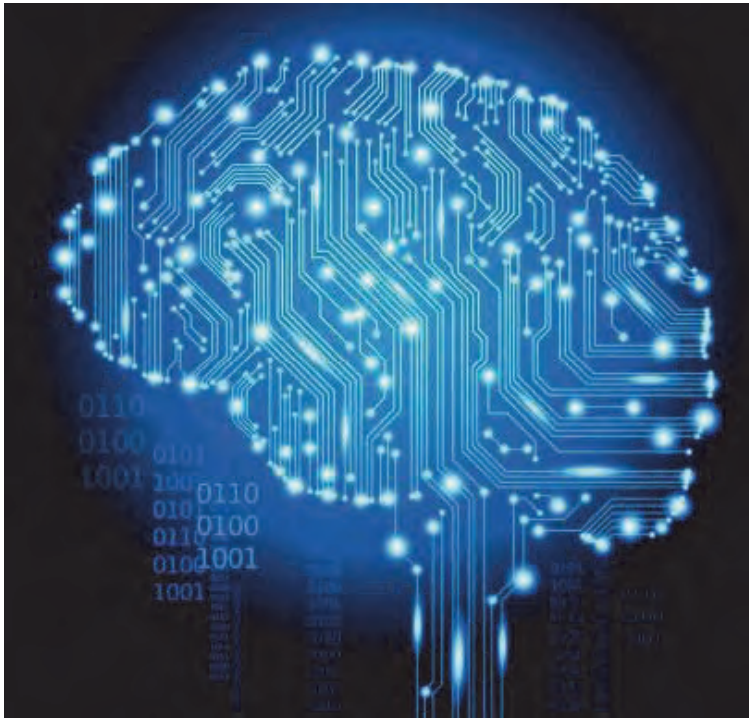
This work does not in any way encourage the segregation of entrepreneurs by intellect or intellectual qualities. It only tries to establish a formula for the “fuel” of success. No one is surprised that rockets are launched using heptyl, not kerosene. Burning kerosene they cannot reach required orbits. Similarly, an entrepreneur can only “liftoff into space,” at a minimum, with a full complement of the eight listed components. Seven and a half will not achieve “liftoff.” This does not mean that persons worse in some way. Like an airliner is no worse than a rocket. All sorts of entrepreneurs are needed and all sorts are important⁷. But for flights into the “cosmos of business” they need to understand and train all eight components, which this work examines in detail.

⁷ Paraphrase of a popular children's verse by Sergei Mikhalkov.

A mechanical model of a billionaire's brain

Thought is not entertainment, it's an obligation.

Arkady and Boris Strugatsky,
Snail on the Slope



Modeling the brain of a billionaire, one can imagine it as a type of computer with defined minimum functional requirements both for hardware, the composition and character of the brain, and for software, an algorithm for making business decisions guaranteed to produce a solution: supersuccess, earning a billion.

The algorithm should consist of the following blocks joined by a “data transmission bus”:

1. processor (the left, analytical hemisphere),
2. cache memory,

3. operating memory,
4. external storage,
5. heterodyne-exciter,⁸
6. sensor boards (the right, emotional hemisphere of the brain) with microprocessors translating any external influence into information without accessing the processor and / or memory.

⁸ A technical term is used here for which the author could not find an everyday analogue. Heterodyne-exciter is used to stabilize output in variable generators. Regarding entrepreneurs, the author is referring to feedback mechanisms that provide information to regulate the business, reducing volatility in important respects and improving efficiency.

Hardware requirements— brain characteristics	Comparable computer terminology
Highly conductive brain fluid—the ability to quickly transmit signals from one bundle of neurons to another	Large and fast data transmission bus
The ability to send many signals quickly from one bundle of neurons to another	
Ability to formulate long chains of reasoning	A deep stack
	Large operating memory
	Large cache memory
Learns quickly	High speed loading of data into the system
Large knowledge base	Large external storage
Powerful memory	Long term data storage until system-default / scheduled deletion
High speed reaction	High speed access to external storage
	High speed processors serving external sensors
High speed thinking	High speed processor
Ability to analyze large quantities of data	Large operating memory
Reactive psychological profile	Heterodyne-exciter frequently triggered
Creative thinking (Ability to synthesize information from various fields of knowledge)	Ability to access various types of memory simultaneously
	Processor capable of “Automatic recoding of various information types into a single format”

The composition of the Knowledge Base will be looked at in detail in the section “Knowledge and its measure.”

Description of the operation of an entrepreneur-billionaire's algorithm for making business decisions

"Well, a gravizap is something without which a pepelats can only fly like this (makes a horizontal hand gesture), but with a gravizap it's off to any point in the Universe—whoosh!—in five seconds!"

From the film "Kin-dza-dza!"

1. Either when receiving new information or while considering-analyzing information available earlier (thinking) it must always be filtered in the processor through the question: "How can this be used?" The processor accesses memory and finds existing data related to the given question in the given context, that is, suitable for synthesis. The synthesis of old and new data produces new information, which is further analyzed according to the following algorithm:⁹
2. Does this information have emotional roots (fear, desire¹⁰, sympathy)?
 - 2.1. If "Yes, this is emotional and it is desire or sympathy then the following question: "Is this information a deceit, that is, is someone trying in this way to manipulate, force a decision not entirely thought through and using temptation, sympathy or a sense of indebtedness?"
 - 2.1.1. If "Yes," then "It is necessary to label the information "deceitful" and "It is necessary to try and clarify why it was entered, what the malefactors want from me personally or from entrepreneurs (the market) in general". Versions of potential answers are give in the algorithm's third part.

⁹ This is looked at in greater detail in the section "Knowledge and its measure."

¹⁰ Very strong, passionate desire, potentially sexual in nature, or based on wealth (greed) or other factors.

- 2.2.1.1. If “No,” then “Is this intimidation, is anyone attempting manipulation, or trying to force a decision that consciously is not thought through, by taking advantage of fear (intimidation)?”
If “Yes,” then “Is there an accessible, cost effective, and legal counter?”
 - 2.2.1.1.1. If “Yes,” see the algorithm's third part.
 - 2.2.1.1.2. If “No,” then “There is no need to waste time and effort on pursuing the given business model.”
 - 2.2.1.2. If “Yes,” see the algorithm's third part.
- 3. Is the business concept of a sufficiently large scale and strategic?
 - 3.1. If “No,” then “There is no need to waste time and effort on pursuing the given business model.”
 - 3.2. If “Yes,” then “Does the income expected from the business model exceed by many times the expected risk?”
 - 3.2.1. If “No,” then “There is no need to waste time and effort on pursuing the given business model.”
 - 3.2.2. If “Yes,” then “An attempt to apply (introduce) the business model in practice and the question: “Was it successful?”
 - 3.2.2.1. If “Yes,” the problem is solved, the result, supersuccess—a billion.
 - 3.2.2.2. If “No” then “Why?” and versions, arising as a result of the analysis, are input to the algorithm's part 1 for a new attempt at synthesizing a version of the business model that accounts for the negative result. A counter, designed for high volume, should be built to record the number of attempts.

