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Enhance Assets or Reduce Liabilities?

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Enhance Assets or Reduce Liabilities?

Most executives naturally gravitate toward one of these two approaches. The challenge is that companies need both.

BY LARRY STYBEL AND MARYANNE PEABODY

If they hope to be CEOs or heads of strategic business units, the ability to take multiple perspectives on the same problem will be critical for their success.

WE ONCE ASKED a banker and CEO about his decision to lend to a start-up technology company that later became a big success. The banker took out a sheet of paper and wrote two words: assets and liabilities.

He explained that those two words were more than the fundamental building blocks of the basic accounting equation. They also were a statement about human nature. What the banker meant was that some people gravitate toward asset enhancement as a way of providing value to organizations. Such people often see the world as full of opportunities. However, their weakness is that they are prone to fall in love with their overly optimistic assessments. On the other hand, liabilities reduction is also a critical value. People who gravitate toward this approach tend to see the world as full of threats. Their weakness is that they are tone-deaf to value, lack vision and place too much weight on threat.

The banker's philosophy about making credit decisions was to use the concepts of asset enhancement and liabilities reduction as a framework to look at financial structure and power. At the high-tech start-up he backed, he saw a strong CFO and a strong chief legal counsel monitoring the liability side. He saw strong vice presidents of sales and marketing as champions of the asset enhancement side. And he saw the CEO structuring his role as being the final arbitrator between these two powerful and conflicting forces. The banker liked what he saw.

The assets enhancement vs. liabilities reduction framework sounds almost simplistic; however, it can be surprisingly useful in business. For one thing, it suggests staffing teams with strong advocates for both viewpoints and warns against staffing strongly for the approach the CEO favors. For example, when we do an analysis of companies, we often find strong asset enhancement CEOs closely allied with strong heads of marketing and sales. We then ask questions about how much respect the general counsel and the CFO have in this organization. If they seem merely to be tolerated or if the CFO is thought of as an auditor with a fancy title, the organization may be overly focused on asset enhancement — and overlooking risks as a result.

The asset enhancement/liability reduction framework can also be useful in helping up-and-coming executives reach their potential. Such executives are often told to "think more strategically." A more precise way of getting at the same developmental issue is to explain to executives that the ability to take multiple perspectives on the same problem will be critical for their success.

The world is complex, but does every management framework require complexity? Perhaps leadership in a complex world ought to start from simple first principles. Honoring the dynamic tension between asset enhancement and liabilities reduction is a simple but useful way of starting conversations about important topics within companies.

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