

Food For Thought

April 2010

Do you focus on the Income Statement or the Balance Sheet?

Food for Thought is our way of sharing interesting concepts on corporate leadership and management with others who might find it useful. The thoughts offered are intended to be controversial and thought provoking. They always follow our motto of helping develop logical leadership.

Most CEOs, with far too much on their plate, when faced with the dilemma of either hiring a general manager to take over one of their divisions or hiring a director of organizational development to take care of growing their employees, are likely to opt for the latter. After all, being in direct control of the division – its customers, its products and its profits – will have an immediate impact on this year's financial performance, they argue.

A good way to examine where a CEO should focus their time is to ask whether the CEO is making an income statement contribution or a balance sheet contribution. Note that some balance sheet contributions create intangible assets, not just financial assets – such as developing people. Income statement contributions are: easy to recognize; can usually be well defined, quantified and measured; have a more immediate impact – as in, this period or this year; and their impact is a one time event. In contrast, balance sheet contributions are: often intangible – such as putting in place a new ERP system; usually more difficult to quantify and measure; and the resulting asset often pays off in perpetuity, or at least for a long time.

As a rule of thumb, CEOs should focus more of their time on developing balance sheet assets and be more willing to delegate income statement responsibility to their qualified executives. The long term value of the balance sheet assets is often greater than the one time effect of income statement accomplishments. Besides, it is easier to hold your executives responsible and accountable for delivering on their income statement commitments than to ensure that they have created certain intangible balance sheet assets.

In fact, this philosophy can be extended to analyzing any individual's annual performance plan, prepared at the outset of the year. What line items in your performance plan provide a one-time income statement contribution for this year, and what line items develop balance sheet assets that pay in perpetuity? A good mix of both creates for a balanced performance plan. Most executives are so focused on delivering this

year's results that their performance plan is lopsided in favor of income statement contributions.

We have received many responses to our Food for Thought mailings, asking if you can freely share and forward these thoughts. Indeed you can. All we ask is that a clear attribution to LogiStyle and our contact information are included. For the interested reader, we have archived some of our recent Food for Thought mailings at our website, and can be viewed at [LogiStyle: Food for Thought Archive](#). As always, we welcome your comments. We hope your business is doing well. If we can be of any assistance please feel free to call – even, if just to chat.

Best Regards,

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