

Making more money is the scorecard of your business, not the purpose

Description

Why Maximizing Shareholder Value is the #1 objective today

Let's face it, what makes news when it comes to business successes? Unicorns. We all get excited to look at the success stories (and epic failures) of unicorns and how privately held startups can so quickly grow to over \$1B. It's all about making a ton of money really fast. They make movies about the more colorful leaders of them like Steve Jobs and Elizabeth Holmes. And when businesses think about disruption and growth for their own companies, they daydream about rapid scaling and being a unicorn.

Many company strategies begin and end with a revenue growth target and EBIT target; because the leader of any company is always first and foremost going to measure their success or failure by the almighty dollar above everything else, right? It makes sense. Shareholders look for a return on investment, security, and predictability of their investments. Lenders to companies want to ensure repayment and that happens when the company is healthy financially, growing, and prospering with the debt it takes on.

Corporations were originally conceived to limit the liability of individual investors from the entirety of a corporation's losses. They were invented mainly because things like trading with newly discovered nations were so expensive and risky that individuals could not accomplish it on their own. There were no direct objectives of the worthiness of a corporation to the greater good, and although now there are many regulations to prevent abuse of the public by corporations, there are still no directives for a company to benefit society in any specific way. So the corporate structure today exists almost completely to protect investors from liability and to deliver a return on investors' money. With that system, businesses naturally become focused on "growing at all costs".

If businesses were people, then the most successful humans are The Rock and Arnold Schwarzenegger I guess.

It's not wrong, but!

A focus on growth and profitability is essential to any business. I am not suggesting a purely altruistic approach to corporations. On the contrary, all businesses need to earn money and be profitable, it is the lifeblood of corporations. It is the fundamental yardstick of comparison in how any company is performing.

But not leading with a core purpose for the business leads to some really bad behavior. I'm not blaming CEOs directly for this, because it's exactly what they're incentivized to do. And make no mistake, companies behaving poorly are really the people who lead companies behaving poorly. Some of the obviously terrible behavior looks like any of these:

- Hiding or downplaying health or environmental concerns of their product to the community
- Hiding or downplaying health or environmental concerns of their operations to their employees
- Pressuring employees to work beyond reasonable limits to increase results
- Frauding shareholders/investors by falsifying company or product performance
- Blaming employees for lack of results rather than examining leadership decisions and actions
- Cutting budgets to unachievable levels in order to present an unrealistically rosy outlook
- Stealing competitor information or copying IP illegally to gain an edge
- Increasing prices simply to meet quarterly targets
- Dumping products at the end of quarters or fiscal years to meet targets
- Create difficult cancellation processes for subscriptions to keep apathetic users that don't want the product anymore.

For example, just this week in Canada a new class action settlement was reached between merchants and credit card companies. It's not widely discussed by the public, but credit card companies skim 1-2% off of every credit card purchase from the seller. This hits profits from the retailers (especially the smaller ones) but lines the pockets of the credit card companies. Visa, as an example, made a [**\\$12.3B profit on \\$24B of revenues in 2021**](#). And now with the class action suit resolved, merchants can start passing that charge onto consumers. But for years, VISA and the others chose to collect these fees even though they made tons of profit on interest fees alone. And now they aren't eliminating these fees for merchants to encourage more credit card use, they're simply ignoring the problem and passing the costs to consumers. Consumers may spend more with cash or debit, and thus ultimately harm credit company profits in the long run.

Business is intense, and leaders are under a lot of pressure to perform. Unfortunately, some leaders choose to cut corners for short-term financial success under the influence of that pressure. This is why having a broader purpose that includes all your stakeholders can help you build and sustain a corporation while avoiding the dangerous pitfalls of choices like the list above.

Starting with a customer-centric purpose is good for business

In 1962, Sam Walton opened the first Walmart with the simple strategy of [**“the lowest prices anytime, anywhere”**](#). Fast forward to today, and staying true to that core customer-centric purpose has led them to \$567B in revenue and \$18.7B in profits. Walmart's business model was revolutionary, although obvious in retrospect, and led to rapid and incredible growth for the company. They faced backlash from local mom-and-pop competitors who felt they were destroying the local economy but in the end served the end-customer with what they really cared about: the cheapest price. This singular focus on the end customer's value keeps them from making profit-based decisions that would ultimately harm the end customer experience.

It's not just arguing for non-monetary purpose for altruistic reasons (although you can't argue that a customer-focused purpose is good for the soul). It's also very good for the bottom line. Consumers will put their money on products and services that best give them what they want, and companies that understand this succeed more than those that focus on short-term gains.

Growth versus Longevity

Non-monetary purpose is the key to creating a lasting corporation that can thrive. In Japan, for example, they have over [56% of the entire world's companies that are over 200 years old](#). A respect for tradition, and staying true to core competencies is why this is so much more common in Japanese culture. Some of these companies also have become very well known, large and successful. Nintendo was founded in 1889 as a playing card company, and has stuck to its core purpose of "How to Create Fun", while achieving [USD\\$14B of revenue and nearly \\$5B in profit](#).

The trouble with corporate thinking today is we tend to prioritize short-term growth and results vs longevity and stability. When quarterly and annual results is all that matters then short term tactics will always be used. And many of those short-term tactics will not be sustainable. Changing payment terms to your suppliers from 60 days to 120 days, will give you a short-term boost on your cash management, but in a year you'll be back to the same situation. Delaying raises to employees gives you a short-term improvement on margin, but you will lose some key employees that will hurt your ability to produce in the future.

Most CEO objectives are tied to their annual bonuses, meaning they will obviously bias their decisions to those that will make a difference to results immediately. This isn't their fault then, when they make some of those "bad behaviour" decisions like those above. The fault lies in corporations with immediate investor returns, public results, and greed driving immediate results and thus bad behaviours.

I believe that companies that are focused on the long-term can be relied on to make more holistic and healthier decisions. This leads to the kinds of values that employees, customers and the public tout as the things that attract them to businesses. It leads to an inspired workforce and loyal customers. And that leads to revenue and profits.

If your strategy's #1 goal is growth for growth's sake, then take a step back and find a purpose for your business above that, and the money will come.

Category

1. Uncategorized

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