

[HOME](#) > [FINANCE](#)

We need to stop maximizing profit and start maximizing value

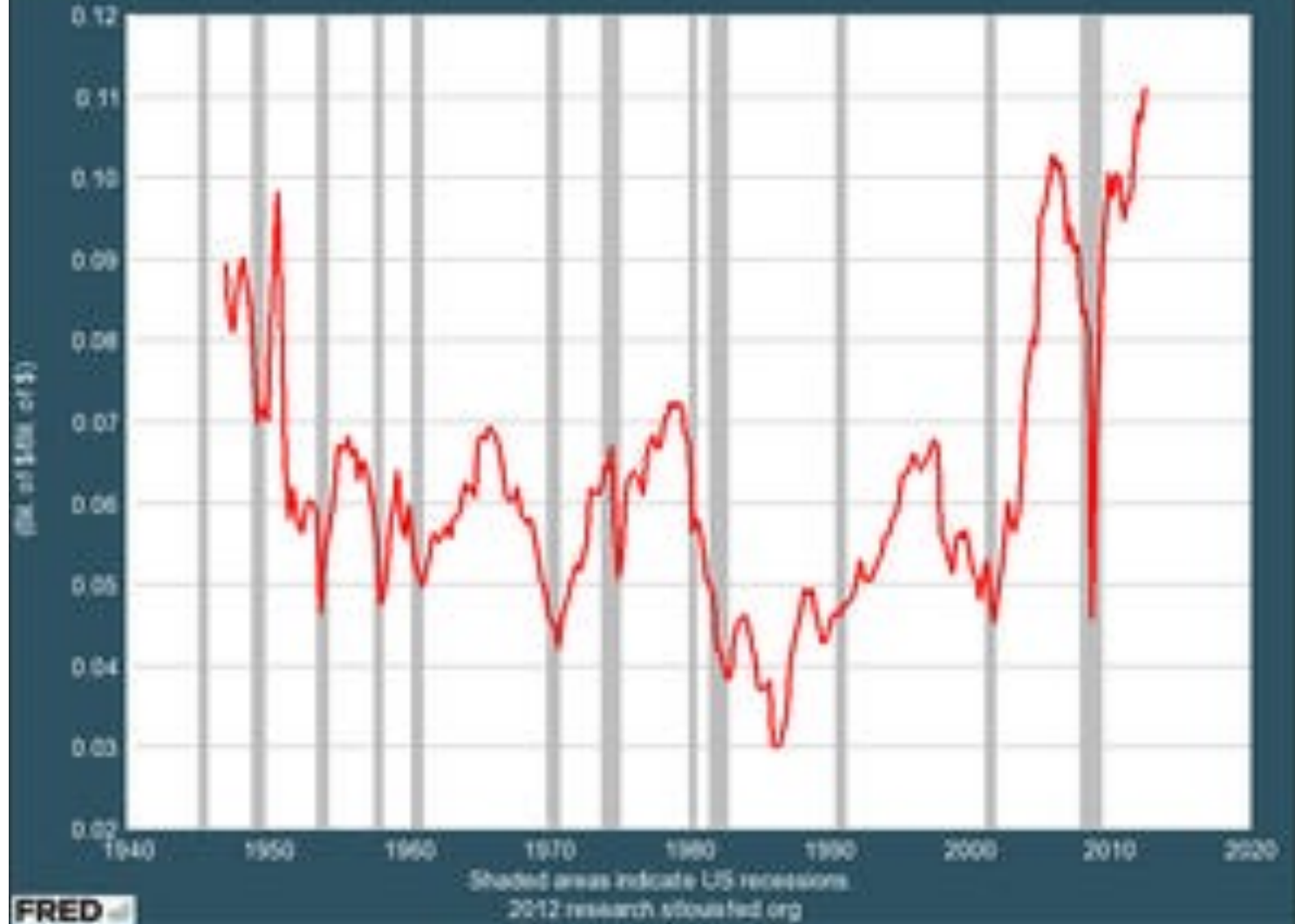
Henry Blodget Dec 8, 2012, 7:50 AM



Since the late 1970s, when American companies were fat and complacent, the focus of American business has been on the bottom line.

Spurred on by activist shareholders, private-equity firms, and bonuses based on stock prices, corporate managers have become obsessed with maximizing quarterly profits.

This new focus has produced remarkable results.



Corporate profits have hit an all-time high as a percent of the economy. Business Insider, St. Louis Fed

Over the past three decades, big American companies have gone from having below-average profit margins to [the highest profit margins in history](#) (see chart at right).

Unfortunately, this obsession with profit maximization has come at a cost.

By focusing their entire effort on the bottom line, many American companies have reduced their value to the other constituencies that truly great companies serve, namely customers, employees,

that truly great companies serve, namely customers, employees, and society.

One result of the profit obsession, for example, is that big American companies are now paying the lowest wages as a percent of the economy in history. (See chart).



Wages have hit an all time low as a percent of the economy. Business Insider, St. Louis Fed

This means that a [record-low percentage of the vast wealth these companies have is being shared](#) with the people who help earn it.

Another result is that companies are now scrimping on capital investments, which have also dropped sharply as a percent of the economy. (See chart).

Both of these efficiency initiatives help "maximize profit," at least in the near term.

But they hurt the economy.

And they also hurt our companies' overall growth rates.

Why?

Because every dime that companies pay out in wages and capital investment becomes revenue for other companies.

Capital investment as a percent of the economy (non-residential) continues to fall.

Business Insider, St. Louis Fed

Rank-and-file employees at American companies--Walmart employees, for example--are also American consumers. They spend nearly everything they earn buying food, clothes, gas, houses, entertainment, and other products and services. This money then becomes profits and wages for companies that provide *those* products and services. And so on.

The problem in the American economy right now is not that there isn't enough investment capital. There's plenty of it. (There's so much of it, in fact, that some companies don't even know what to do with it: Witness the massive cash mountains building up at companies like [Apple](#), [Cisco](#), [Google](#), [Bank of America](#), [JP Morgan](#), et al.)

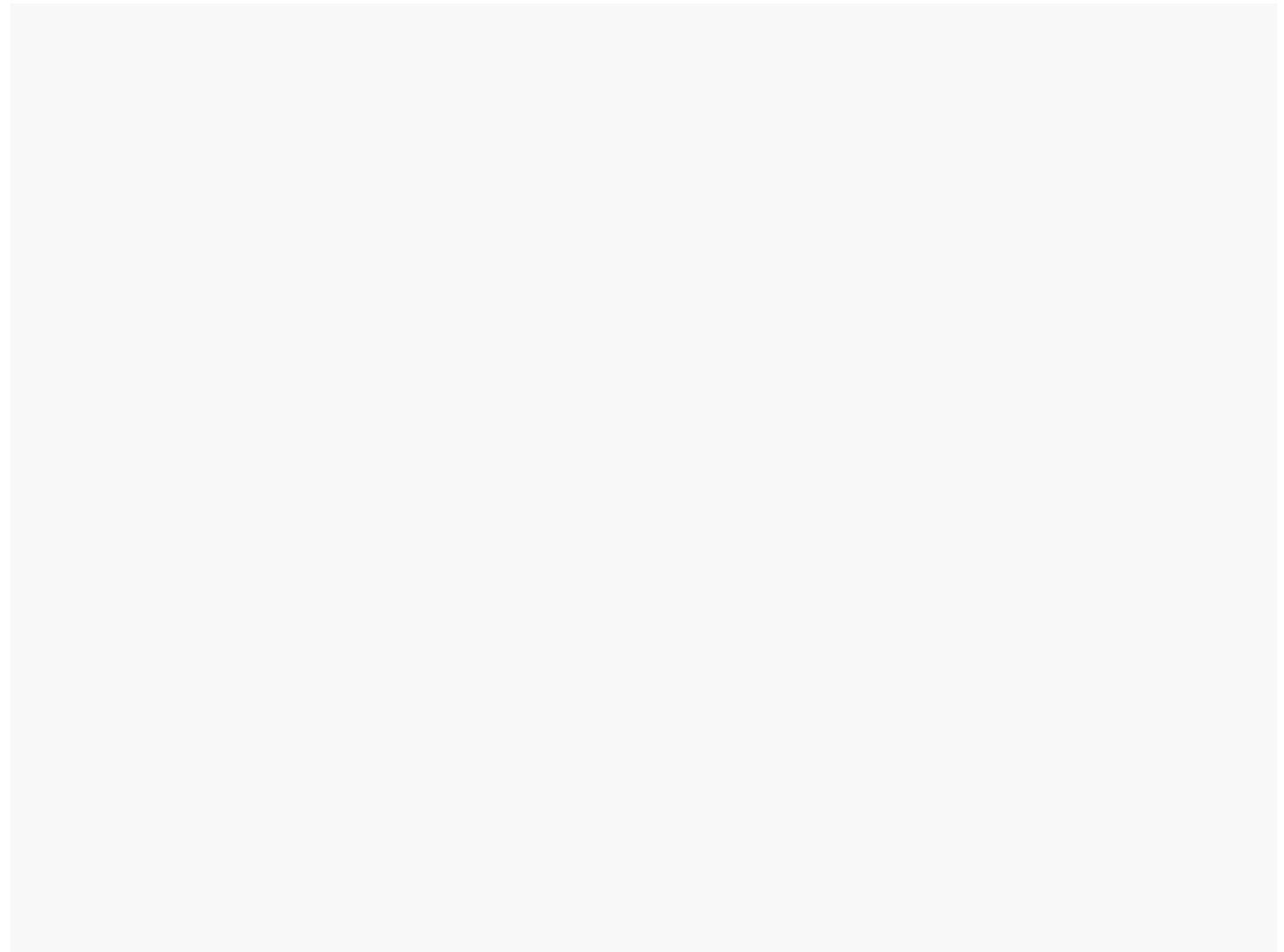
The problem is that rank and file American consumers are over-indebted, under-employed, and broke.

And these consumers account for a staggering 70% of the

And these consumers account for a staggering 70% of the spending in the U.S. economy.

To restore the economy to health, we need to persuade our companies to balance their priorities--to share more of their wealth with the employees who help earn it.

More broadly, we need to persuade our companies to focus on creating value for *all* of their constituencies, not just shareholders.



This is the new American manufacturing worker. Her company's doing great. She needs a raise. By toastforbrekkie on Flickr

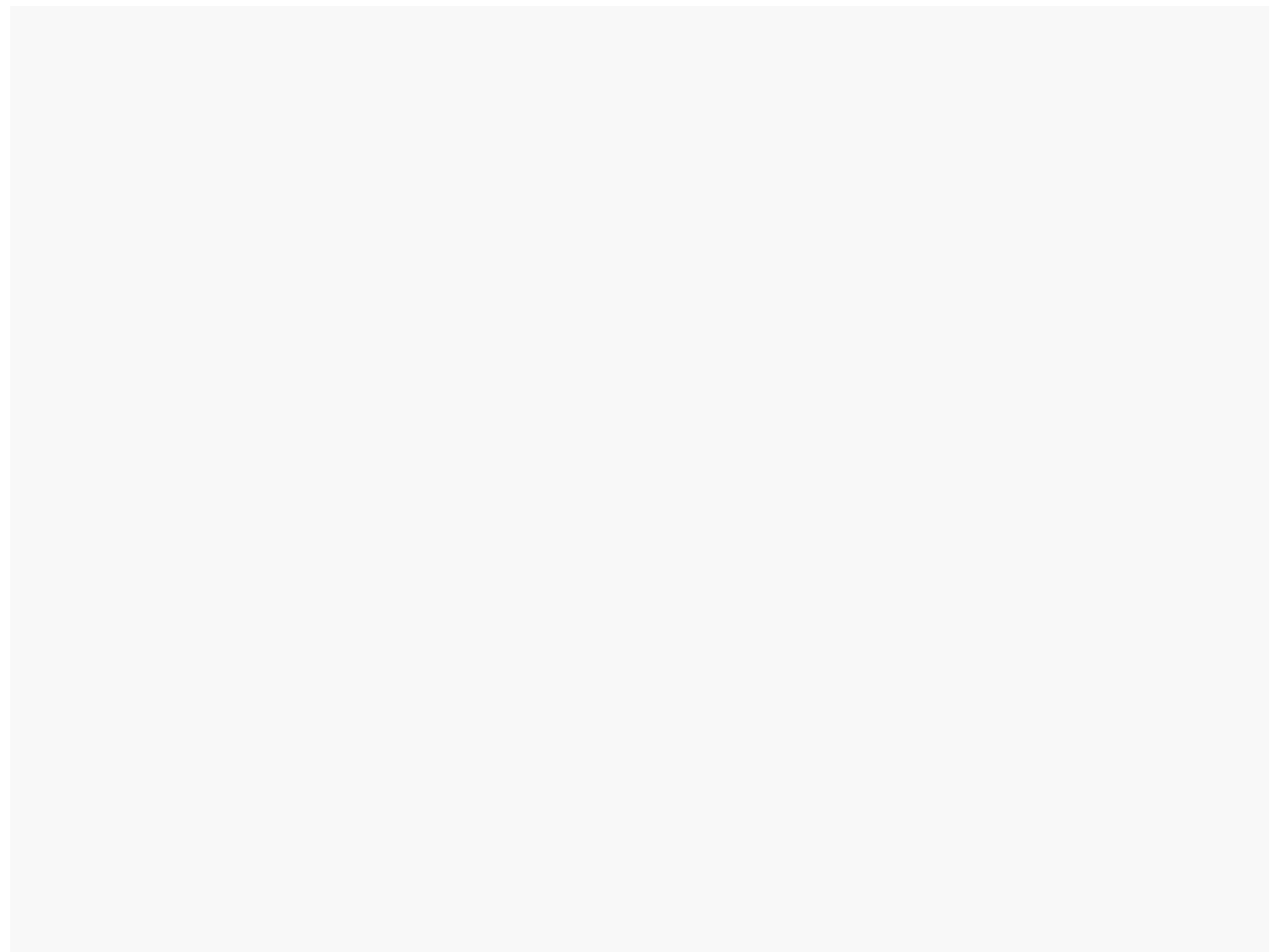
Take Walmart as an example.

Walmart employs 1.4 million Americans, approximately 1% of the entire American workforce. The average full-time Walmart associate makes \$12 an hour--\$480 a week and \$25,000 a year. That's just above the poverty line. These 1.4 million Americans who are dedicating their lives to making Walmart successful, in other words, are paid so little that they're nearly poor. Walmart itself made \$27 billion of operating profit last year. If Walmart were to give each of its US associates a \$5,000 raise, it would cost the company \$7 billion a year. This would reduce Walmart's operating profit to a still-extremely-healthy \$20 billion. It would also give 1.4 million hard-working Americans another \$100 a week to spend. And, chances are, they'd spend a lot of it at Walmart.

The same can be said for Bank of America, Citigroup, and many other huge American companies that are furiously engaged in finding ways to fire people and cut costs. In addition to their massively profitable Wall Street operations, these banks have huge branch networks in which tellers and local loan officers make modest salaries while serving their communities. Some of

them would undoubtedly be grateful for a raise. And they'd probably spend it close to home.

The point is that our three-decade drive to make our companies more efficient has been spectacularly successful--so successful that, in the interests of "maximizing profits," we're now starving the key growth driver of the economy, average Americans.



How can we fix the economy? We can reinvest profits in people. [Business Insider, St. Louis Fed](#)

To fix this, our companies need to share more of their wealth with their employees.

their employees.

They need to aim to earn a *reasonable* profit, not a "maximized" one.

And they need to reinvest their excess profits in creating more value for their other constituencies, namely customers, employees, and society.

"Fairness" and "sharing" have become dirty words in our country, words that immediately get the speaker branded a "liberal" or "communist." This is depressing. "Fairness" and "sharing" aren't political concepts, and the fact that they're interpreted that way shows just how polarized the country has become.

But given that half the country now associates "voluntary sharing" with "communism," arguing that companies should share their wealth because it's the right thing to do won't get us very far.

So let's just base the argument on self-interest.

It is *very much* in companies' self-interest to pay employees more.

If companies pay their employees more, they'll increase loyalty, reduce turnover, and get better employees. Over the long term,

reduce turnover, and get better employees. Over the long term, this should reduce training and hiring costs. By increasing customer satisfaction, it should also increase revenue. By paying their employees more, companies will also put more money in the hands of American consumers, who will then turn around and use it to buy products and services from American companies. So the companies will help accelerate the growth of the economy as a whole. And as the economy grows, so will the companies. This, in turn, will help create more *long-term* shareholder value.

In short, to restore our economy and society to health, we need a new corporate mission in America.

We need to stop maximizing *profit* and start maximizing *value*.

SEE ALSO: 15 Facts About Starbucks That Will Blow Your Mind

More: [Wages](#) [Profits](#)

Taboola Feed 

8 Things That Make Bombas the Best Socks in the History of Feet

Sponsored by Bombas

If You Wear Asics, You'll Love This Trick

Sponsored by Wikibuy

Neighbor's Glass-Like Shine Baffles Local Detailer (Here's How)

Neighbor's Glass Like China Dishes Local Dealer (Here's How)
Sponsored by VehicleBuff Review

How To Empty Your Bowels Every Morning - Top Surgeon Explains How

Sponsored by Gundry MD

Date Night In Never Looked So Good - Impress In Our Best

Sponsored by White House Black Market

FROM THE WEB

Sponsored Links by Taboola

This Just In: New Releases. Don't Miss Out on Bombas Socks

Bombas

If You Like to Play, this City-Building Game is a Must-Have. No Install.

Forge Of Empires

How To Make Your Dark Spots Fade (Effortless 2 Minute Routine)

Gundry MD

The Genius Hack Every Home Depot Shopper Should Know

Wikibuy

Kansas City, Missouri: This Tiny, Unknown Company Is Disrupting A \$200 Billion Industry

US Auto Insurance Now

Pet Owners: Pay Less for the Essentials You Need

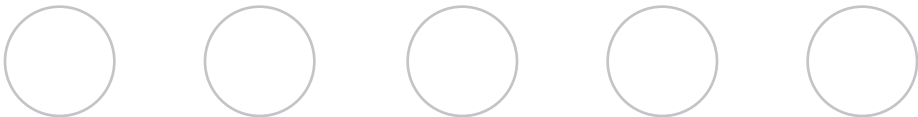
Honey

Missouri: Low Mileage Senior Drivers Are in For a Big Surprise

Auto Rates USA

Well Known Trick To Prevent Gutter Clogging

LeafFilter Partner



* [Copyright © 2020](#) Insider Inc. All rights reserved. Registration on or use of this site constitutes acceptance of our [Terms of Service](#), [Privacy Policy](#) and [Cookies Policy](#).

[Sitemap](#) | [Disclaimer](#) | [Commerce Policy](#) | [CA Privacy Rights](#) | [Coupons](#) | [Made in NYC](#)

Stock quotes by [finanzen.net](#) | [Reprints & Permissions](#)

International Editions:

[INTL](#) | [AUS](#) | [DE](#) | [ES](#) | [FR](#) | [IN](#) | [IT](#) | [JP](#) | [MY](#) | [MX](#) | [NL](#) | [SE](#) | [PL](#) | [SG](#) | [ZA](#)

[CA Do Not Sell My Info](#)

[CA Do Not Sell My Info](#)