

Hermann Simon's "Critique of Pure Interest" (2)

**A sense of incongruity toward denial of profit-seeking principle**

## **A company must maximize profits**

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Overseas, there is a strict eye on "maximizing corporate profits" as well as "shareholder first". Hermann Simon casts doubt on that trend.

**Hermann Simon**

Business Scholar, Honorary Chairman of Simon Kucher & Partners



Studied economics and business administration and received a PhD from the University of Bonn, Germany. He was a professor at the University of Mainz and Bielefeld University in Germany. In 1985, co-founded German consulting firm Simon Kucha & Partners. In the German-speaking world, he is considered to be the most influential management thinker after Peter Drucker. His books include "Hidden Champion Companies in Global Business" (Chuokezai-sha) and "Rules of Price" (Chuokezai-sha).

Hermann Simon, a German business scholar, is known for his numerous books, including "The Hidden Champion of Global Business," which gives various suggestions to those involved in business. I have continued to make recommendations. How does Mr.

Simon see the tone that is popular these days, "The purpose of a company is not necessarily the pursuit of profits"?

**"Today, it seems that" maximizing corporate profits "is disliked so much that it seems as if there is no more disturbing concept. It is as disliked as" improving shareholder value. " However, I have a big sense of discomfort about this trend (mainly in the US and UK). "**

At the US Business Roundtable held in August 2019, a review of the declaration on "corporate purpose" was announced and attracted attention. The new "corporate purpose" to replace the pursuit of profit was to "fulfill our responsibilities to all stakeholders."

**181 out of 188 agree**

The conference was attended by 188 CEOs of major US companies, and 181 agreed with the new declaration. Among them were Jamie Dimon, CEO of JPMorgan Chase, a major US investment bank, and the heads of BlackRock and Vanguard Group, influential investors in the United States.

**"At the US Business Roundtable, the resolution was passed by a majority, but I think it also worked like a group psychology. (The denial of profit-seeking principle) is social as a kind of'trend'. The evidence is that the "Davos Manifest" at the Davos Conference, which was subsequently announced by the World Economic Forum, had almost the same content. "**

The origin of this trend is the criticism of the pursuit of profits that the late Jack Welch, a former CEO of General Electric (GE) in the United States, told the Financial Times in 2009. But Simon argues that what Welch denied at the time was different from "profit-seeking" in the right sense.

**"Mr. Welch criticized profit maximization for shareholders, which clearly contradicts what he had been doing at GE for about 20 years. He was respected for raising GE's share price. In the first place, Mr. Welch did contribute to the short-term rise in stock prices during his tenure, but he was not the manager who changed the company to "a constitution that can pursue long-term profits."**

For example, he said he's been increasing revenue every quarter for over 20 years, a result of Welch's continued pressure on all of GE's divisions.

In fact, his successor, Jeff Immelt, struggled with the reaction. I met Immelt about 15 years ago, and he said, "There are departments that are not profitable and cannot survive in the long run." In short, Welch was implementing measures that would maximize short-term profits rather than long-term ones. There is a fundamental difference from my way of thinking about profits. " High-profit companies and top-ranked companies by market capitalization with slightly different faces

- Top 20 in the world corporate profit ranking



Source: Visual Capitalist.com "The world's 20 Most Profitable companies"

- World market capitalization ranking (as of April 6, 2021)

1	米アップル
2	サウジアラビア・サウジアラムコ
3	米マイクロソフト
4	米アマゾン・ドット・コム
5	米アルファベット
6	米フェイスブック
7	中国テンセント
8	米テスラ
9	中国アリババ集団
10	米パークシャー・ハザウェイ
11	台湾TSMC
12	韓国サムスン電子
13	米ピザ
14	米ウォルマート
15	米JPモルガン・チェース
16	米ジョンソン・エンド・ジョンソン
17	中国貴州茅台酒
18	米マスターカード
19	米エヌビディア
20	米ユナイテッドヘルス

Source: [Companiesmarketcap.com](https://www.companiesmarketcap.com)

Simon believes that management aimed at maximizing short-term profits is obsolete. Currently, the most influential factor in the actual behavior of a company is the work of groups that move financial capital, such as investors and funds. And what they want from companies is already replacing short-term outcomes with activities that lead to long-term prosperity.

**"Recently, some of the major investors have said that sustainability and climate change are important criteria for investing. Pollution of the environment by businesses is a future eternity. It leads to very high risks. Investors naturally avoid such risks. Investment funds and large asset managers, in particular, tend to put a lot of pressure on companies to consider a concept called 'ESG'. It has a much stronger influence (on corporate behavior change) than the statements of the roundtable and the Davos conference. "**

So that's what Simon wants to say.

In the world, "denial of corporate profitability" is praised, but what should be denied is "pursuit of short-term profit", and long-term

profit is something that companies should definitely aim for. Nevertheless, the recent trend of denial of profits may sound as if companies should deny the aim of securing profits. This is the true identity of Mr. Simon's "uncomfortable feeling."

### **Two different benefits**



Did Jack Welch Increase Long-Term Profit (Photo = Reuters / Afro)?

**"When aiming to maximize long-term profits, the idea is completely different from short-term orientation.**

**For example, consider this corona disaster. Companies with products that are in short supply in the world can abuse their positions. For example, it was possible to sell a mask that costs only about 5 cents a piece for \$ 5 a piece. But that would ruin the company's image and reputation in the long run, even if it increases profits in the short run. "**

Next time, I will introduce Mr. Simon's "criticism of market share principle" centered on Mr. Simon's value of "emphasis on long-term profits".