



## THE PARADOX OF PROFIT MAXIMIZATION

Look, I get it. Every CEO and/or senior officer on the planet has four things on their agenda: raise revenues, cut costs, maximize the effectiveness of human and capital resources and stay out of jail. Boards and CEOs have a fiduciary responsibility to enhance shareholder value. Private equity firms focus on building enterprise value, and line managers work their hearts out to hit their numbers and earn bonuses. The paradox is how many organizations actually minimize their profits, or destroy them altogether by focusing on them.

While every business needs good management and profit motive in order to prosper, leadership is necessary to build a powerful culture. There is plenty of compelling evidence to suggest the most effective way to maximize business profits and enterprise value may actually be to minimize their importance. The fact of the matter is that you need every single person on your payroll to be engaged, and working hard toward your business objectives in order to achieve them; and you don't get that kind of engagement without leadership. You also need customers to whom you deliver real value, and who believe that you stand for something that resonates with them in order to consistently grow revenues and market share. Neither profit maximization nor enterprise value improvement is sufficient to engage a workforce, and they certainly won't inspire customers.

I learned many of these lessons during a twenty year career in retail. As an operator, I was known for an uncanny ability to quickly and predictably grow sales and profits in organizations from forty-five employees to over 10,000. The store format didn't seem to matter, nor did the geography or demographics. Time after time, as one of my bosses said, wherever I went, the good numbers went up and the bad numbers came down. The single most interesting thing about this fabulous financial performance is that, for much of my tenure, **I had no idea how I was doing it!**

As a twenty-one year-old supermarket store manager in the mid-seventies, I took over a store that had very poor sales performance and never made money. Within six months, we were in the top 30% of a ninety store division in profitability and in the top five in sales improvement. The next year, I took over the highest volume store in West Houston and quadrupled profits over three quarters. All of this and still couldn't read a profit & loss statement or a balance sheet.

As a multi-unit operator with one of the largest C-Store companies in the country in the mid-eighties, I was promoted eleven times in five years, to the number two operating position in the company with revenues of \$2.5 billion and headcount of 6,200. The first district for which I assumed responsibility went from dead last in every category, out of nine districts, to number three in sales performance and number one in profitability, in six months. As a division president, our numbers so far exceeded the others, there was no comparison.

Interestingly, while enjoying accolades that stemmed from my top and bottom line performance, I was often criticized for my apparent disregard for company planograms, labor standards, full-time/part-time ratios, supply costs and miscellaneous expenses. Throughout my entire retail career, I was criticized for having the most highly compensated operations managers, district managers, store managers and staff, even though we had the lowest total employee cost as a percentage of revenues. I was also criticized for spending too much on employee incentives, bonuses and recognition, while rejecting the conventional wisdom of the bell curve method of compensation, annual performance reviews and much more.

As I became a management trainee at eighteen, I didn't begin my higher education until I was actually running a retail division. I think some of my most valuable education came from the two years I spent as a part-time clerk in a supermarket, and more specifically when I carried out groceries for customers. I learned that the nicer I was, the more I paid attention to customers, the bigger the tips I got! When I became a manager and had dozens and then hundreds of employees, and then thousands as a division head, the customer focus lesson remained with me. Along the way, I figured out, largely as a result of listening to employees who were much older and wiser than I, that getting everyone on the team united behind a common cause, and focused on the customer, was really important.

I could go on, because I really enjoy reliving these times, but I think you get the picture. Why then, and this is the BIG question, do so many seemingly bright, well-meaning and highly educated professionals routinely destroy enterprise value, entire organizations and iconic brands in the name of profit maximization?

The best and brightest leaders we are studying today, leaders that have learned how to build Purpose-driven organizations, believe that focus on profit maximization is a sure fire recipe for substandard profit performance. Focus on profit for profit's sake leads to low employee engagement, excessive employee and customer turnover and ultimately, enterprise value sub-optimization. Much like the game of golf, where you're supposed to swing slow to hit hard, hit down to make the ball go up, the harder you try to maximize profits, the worse they'll become.

It is an absolute myth, that focusing on Purpose needs to cost tons of money or that value takes years to realize. You, as a leader, can decide TODAY, to start the journey of discovering core Purpose, and the day you make that decision is the day you'll start to see improvements. Your results can improve quickly, as we've seen in many of the organizations we've studied. It's also a myth that the power of Purpose only works in customer facing businesses, private companies or certain capital structures. If you're trying build enterprise value and maximize shareholder return, Purpose is the great multiplier. It is also the key ingredient in the ONLY sustainable competitive advantage on earth, culture.

In our relentless pursuit of knowledge intended to enhance the lives and effectiveness of our associates, clients and leaders of the world, we have studied Purpose driven leadership in dozens of organizations. Here are just three to illustrate:

Waste Connections, led by Purpose-driven leader and founder Ron Mittelstaedt, is a \$9 billion market cap, publically held trash business with 300+ acquisitions, 9,000 employees and widely dispersed operations throughout the country. In an industry where 100% annual employee turnover is common, WC experiences less than 20% turnover, has an amazingly engaged workforce and generates EBITDA of 34%.

ONEOK, led by Purpose-driven leader John Gibson, is a Fortune 500, diversified energy company, general partner and owner of 41.2% percent of ONEOK Partners, and one of the largest publicly traded master limited partnerships in the U.S. In an industry plagued with turnover and safety problems, the company operates with extremely low turnover, financial metrics that far exceed industry averages, and a powerful employer brand that attracts and retains top talent.

QuikTrip, led by Purpose-driven leader Chet Cadieux, is an \$11 billion, privately held, 700 store convenience store chain with off-the-charts financial performance and unprecedented growth, operating in eleven states. In an industry where triple digit turnover, inconsistent operations, excessive inventory losses and poor store conditions are the norm, QT runs like a finely tuned Swiss Watch, has less than 10% turnover and has an employment brand that is so strong that they hire only one person for every 100 who apply.

I've used these examples because we've interviewed these leaders and they lead very different

businesses. One is a private Business to Consumer business, one is a publicly held Business to Business enterprise and one is a diversified energy company and master limited partnership. Purpose driven leadership works in any environment. Another truth is that every organization has a core Purpose, even if it has not yet been discovered.

Operating with core Purpose does something the best strategy on earth can't do. Core Purpose unifies all stakeholders to achieve something bigger than just making money. Operating with core Purpose and the corresponding mission, vision and values that flow from it, creates a powerful culture that cannot be copied, and culture, quite simply, eats strategy for breakfast.

Jim Collins, Roy Spence and others have written about the power of culture and Purpose for quite some time. *Built to Last*, published in 1994, spoke of culture and Purpose, and the notion seemed to get a little traction. Today, we hear very little about it. It seems that most of us have forgotten, if we ever really knew, how to build a culture that unleashes the full potential of our organizations so they really can deliver sustained and predictable business results.

The fact of the matter is that you'll need ALL of your employees, not just the board, shareholders and leadership team to generate long-term sustainable financial metrics. Employees join Purpose driven organizations because they want to make a real difference and they know their employer will provide the atmosphere, esprit de corps, support and culture to do so.

And just so you know, Purpose is going to become increasingly important. Generation Y and Millennials, born after 1976 are already in charge of much of our world and they're becoming more and more influential as the years race by. Times are changing fundamentally. Baby boomers, born to traditional parents who lived through the depression, would work like crazy to move up, make money and live the American corporate dream. Gen Yers and Millennials work to make a difference and to make the world a better place. We can all either get this fact and cash in, or stick our heads in the sand and lose out.

Once Purpose has been established, it is a filter through which an organization evaluates every opportunity, every initiative, every acquisition, every policy, every hire and every expenditure. Southwest Airlines does not spend a dime, embark on a new campaign, hire an employee, add a new revenue stream or reduce an expense unless doing so supports their Purpose of democratizing the skies: providing a pleasurable flying experience for as many people as possible at the lowest possible cost.

The good news is that while building a Purpose driven culture is not necessarily easy, it's not all that complicated. It starts with a decision to begin a journey and a commitment. It's not a destination, an implementation, a roll out or something you can ever stop. Clear Purpose and mission is where it all starts, supported by strong values, a strategy and operating plans, including compensation, aligning the interests of all stakeholders. Building and maintaining a powerful, Purpose driven culture is much like maintaining a powerful body and good health. You have to do check-ups and make the necessary adjustments. Much like checking blood pressure and bloodwork, in organizations we have to check cultural imperatives like leadership, communication, agility, teamwork, challenging the status quo and customer focus.

**Stay tuned for much more research on this incredibly important subject. In support of Allen Austin's purpose of enhancing the lives and effectiveness of our associates, clients and leaders of the world, we on a mission to learn from as many purpose driven leaders as we possibly can. Our intent is to share what we're learning to help as many organizations as we possibly can become as great as they can be. If you are interested in becoming part of the Allen Austin Movement on Purpose Driven Cultures, please let us know. We'll share our research with you as we go, and together we will make the worldwide workplace materially better for multitudes of employees, families and stakeholders. Oh, and yes, we'll make a bunch of money, have loads of fun and build a ton of enterprise value along the way.**