

Good businesses don't maximise profits. They maximise...

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The whole of the microeconomic theory of business is based on the idea that businesses maximise profit. They don't because doing so works for no one. It's a route to business failure. It's maximizing happiness that works.

<https://youtu.be/vXSahbQFxy8?si=0ZDxObUW121bro9L>

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This is the transcript:

No business should maximise its profits. I really do mean that.

And, in fact, I'm going to say something else as well. No business does maximise its profits and those who say they should are revealing some very weird form of psychopathic tendency.

And yet in every single undergraduate classroom in an economics course in the UK and probably around the world, and in every single undergraduate classroom for an accountancy course in the UK and probably around the world, students will be told businesses exist to maximise their profits on behalf of their shareholders. And I've got to tell you, they don't. Let's explain why.

First of all, I defy anyone to be able to define the profit that a business is supposed to maximise. Profit does not exist as a thing. Let's be clear about this. You can't see a pile

of profit. You can't go to a shelf and pick it up. There is no such thing that is identifiable as profit as such. That makes it exceedingly difficult to maximise because how do you measure it?

It's a residual. It's the difference between the income of a business less its expenses during a period. But first of all, you've got to be able to define what the income is. And trust me, I was a chartered accountant for a very long time. Defining what business income during a period might be can be very difficult, particularly if you're involved in things like long term contracts.

And you've got to be able to define the expenses of a business during a period. And trust me, that can also be very difficult.

Imagine you're running a nuclear power station as your business. What are the costs this year for decommissioning the power station in 30 years' time? Do you know? No, no one will. There are estimates that have to be made when you come to creating a set of accounts to state what the costs of a business during a period are, and those costs are able to be manipulated in almost any way you like to come up with a figure which is pretty meaningless when we come down to it with regard to what they might be, and, therefore, what is profit?

It's a sort of ambiguous number for income, which could be open to manipulation in all sorts of ways, less, a figure for expenses, which is open to manipulation in all sorts of other ways, and which might, by the way, include a lot of things which have not been spent during this period because they relate to spending either in prior periods, which is what depreciation on fixed assets is, or which will be incurred in the future, which is, for example, the cost of paying the pensions to the staff who are working now.

All of that means that profit is a figure between "this and that". How do you maximise a profit between "this and that?" How do you know that you've maximised it? Can you? Well, of course, you can't.

The only way in which economists say that you can maximise a profit is by assuming that you know the answer to all the accounting questions that I've just raised.

You know what your income is precisely, despite all the ambiguities that occur because a single period of account, whether it be a day, a week, a month, a year, or whatever, is a particular extraction from a time series that makes no sense in itself.

And that you know what all your expenses are, subject to all the same constraints.

The reality is, you can't know those things.

So, first of all, the economist's view of profit, both now and as a cash flow into the future, which is their alternative view of what profit might be, is nonsensical.

But let's also deal with another dimension of this. To maximise profit is absurd because it's probably the best way to destroy a business that anybody has yet found. Let me explain that.

If you want to maximise your profit, you will probably want to abuse your staff. I don't mean in any physical or other way, I just mean you won't want to pay them what they're worth, and you'll be thoroughly mean with their holiday allowances. You'll be miserable about them taking time off when they're sick. You won't support their training. You will make their life uncomfortable whilst they're at work because you're trying to extract maximum value for minimum payment out of them. Those staff won't stay for long. You'll have an enormous staff turnover cost, and you'll wonder, why is my profit not maximised because I'm spending so much on recruitment? Because you didn't do the right thing. Because you think you're maximising your profit and therefore you've got to push your staff too hard.

You'll push your customers too hard. You'll promise a wrong delivery date. Or you'll have all those hidden extras that Ryanair were once so well known for.

There's a wonderful song that I quite enjoy watching called '[Cheap flights](#)' and it's about the fact that you can't buy an air ticket for 50p because when you do you discover there'll be all the add on cost of this; booking the seat; getting your luggage on board; printing your boarding pass; the cost of actually paying, which will be on the company's own credit card, which you've got to apply for and then have a processing charge on, and everything else. The point is you will be conning the customer you are trying to maximise your profit, and they will resent you doing so.

And you'll also be abusing your suppliers. I really don't like people who abuse suppliers by taking excess credit and then declaring after 90 days of nonpayment, "Here's your payment less 5%, which is the discount for our prompt handling." What? And yet, that is what big business does. That type of abuse goes on regularly.

This is what profit-maximizing does. It shows a focus on the well-being of one group in society, the supposed mythical shareholder, none of whom will probably be known to the management of the organisation who is supposedly acting on their behalf. And everybody else can go to, well, hell in a handcart, if we put it bluntly.

And that's not okay. Because if you do that, you might, in the very short term, maximise your profit. But in the long term, you won't.

So which of those two do you want to do? Do you want to have a business that survives? Or a business that fails? A business that flourishes or one that is pretty much loathed? That is a choice you can make, but if you are a profit maximised, you will probably go for the business that's going to fail and be loathed because you will be abusing the community on whom you are dependent.

If you really want to succeed in business, and I've run quite a lot of businesses, I do know what I'm talking about – and I used to also be senior partner of a firm of accountants which advised hundreds of clients on how to run successful businesses. And the point was, what we told them was, try to make the customer happy. Keep your staff happy. Keep your suppliers happy. And in the process of doing that, try to add what value you can to the community that you are trying to serve. Then you will have a successful business. Do all that and you will probably make money.

But making money is in this sense an epiphenomenon of doing something else really well. Or doing several other things really well, like making a good product that people want to buy, that people want to come back to you and buy again from staff who are happy.

Happiness, again, is not something that you can pick up or measure. In that sense, it's as amorphous as profit and we all know that. But we'll experience it in a way that we can't actually experience profit but by experiencing happiness in the sense of meeting need and doing so across a range of communities, customers, suppliers, employees, and so on, then we know that we are actually doing something good.

A good business will try to do something good.

A business that is trying to upset everyone will try to maximize profit. Which is why I said at the outset, they might be run by psychopaths because they really don't care about anybody else but themselves.

So my real question is, why do we teach undergraduate economists, and why do we teach undergraduate accountants, that businesses should maximise profits if they are to be successful when the exact opposite is true? Businesses that maximise happiness are successful. And as a consequence, they will end up making profit, whatever it is. And I've got to tell you, it is decidedly amorphous and decidedly malleable in terms of its presentation. But they will survive into the long term. And that is the basis for real, true profitability because they will have added value.