

Profit indicator of the success of an organisation

Psychology, Success



In most of people's opinion, the aim of operating a business enterprise is attempt to achieve as much return as possible. However this is perhaps too general an assumption to make. Thus this essay is going to discuss what extent is profit a good indicator of the success of an organisation. At the beginning, it explains the deep-seated signification of profit. Following this, not-for-profit organisation and profit organisation are analysed with their objectives. Also in this essay, some important factors that affect the measurement of success of organizations are discussed as well.

Some examples are quoted and a few graphs are showed in this essay in order to give further dissertation of indicator for business. The definition of profit in dictionary is advantage, benefit, return, etc. But these are not appropriate to indicate whether an organisation is successful or not. The success of an organisation not just depend on how much it earn but others " profits" such as the reputation in society, the strength of further development and so on. In theory, the entrepreneur would be a profit maximiser.

But in fact, profit maximisation is not, as has already been referred, the sole objective of every company. Many organisations do not seek to maximise profit. They are content to accept sufficient profits to enable the organisation to survive, pay the bills, provide enough to allow employees to be paid and leave the owner or owners an adequate income to allow them to enjoy the life-style they are happy with. According to The BusinessEnvironmentby P. M. Callaghan et al. , profit that the enterprise does not seek to can be called.

SATISFACTORY PROFIT.

For example, a local shopkeeper may choose to close the store at 5.30 pm rather than practice late opening hours; staying open for a longer time would increase profit but allow less leisure time at home. This non-maximisation of profit is not restricted to the smaller one-man business. Many companies do not fully exploit the potential for expansion and profit growth. As anterior mention, some organisations pay more attention in social effect and the future more than profit especially in serves provider. Like hospital, police station, local transport services, welfare work, etc.

In this case, what people think about them and the reputation in people's heart is the indicator of the success of the organisation. On the other hand, although profit plays an important role of MAXIMUM PROFIT business, there are many various character of profit that we have to think over carefully when we indicate the account of an organisation. Just let us have a look at a part of the Profit and loss account for GUS Plc. According to the chart above, we know the figure of Exceptional items was 84.7 million pounds in 2001, which is greater than one year ago.

But in 2000, the figure of Profit after taxation is greater than the figure in 2001. That mean although the Profit before amortisation of goodwill, exceptional items and taxation in 2001 exceeded that in 2000, The Great Universal Store P. L. C. still earned less profit. This example proves that enterprises can not be considered successful by profit return; extraordinary items which is the most typical extra factor could affect the profit return. For example, a firm could sell their fix assets such as building and machinery to get more money in order to make the profit return high.

However, this firm could not be considered successful in long-term and shareholders will not affirm its future. In the account of an enterprise, different types of profit have their own function to indicate how is a firm works in short-term or long-term. Another example can be used for arguing last sentence is the relationship between gross profit and operating profit. If an enterprise spends lots of operating expenses, the operating profit will be showed poor in this case.

May be people will think this firm has not got enough potential for the competition in market. But from a point of view of long-term, this firm is successful by buying some more machines to increase the output of production or improving advanced technology. Some people perhaps say profit is still an exact standard to reflect the achievement of an organisation after these two ensamples. Let us take a typical example again to satisfy those people. Supposing there are two companies (A & B) in the same market and same period.

The net-profit of A is 5M and its capital employed is 25M. At the same time, company B get its net-profit is 10M which is greater than the net-profit of A definitely and the capital employed of B is 100M. Whereas, company A is more successful than B because the R. O. C. E (Return on capital employed) ratio of A that is 25% exceed the R. O. C. E ratio of B which is 10%. So it can be seen that profit is an effective indicator of measuring the success of an organisation in a certain extent but others factors should be recognized as well.

I think those people who were mentioned before do change their view at this moment. Secondly, the success of a profit organisation could be influenced by a number of other factors; stakeholder is one of the key indicators. All enterprises, whether in the public or private sectors, whether they are profit or not-for-profit organisation, have stakeholders. " Stakeholders are individuals or groups who have an interest in how the enterprise performs because it affects them in some way-that is they have a stake in the organisation.

"(The Quality Magazine, 7(1), February 1998, p. 71-72) This sentence defined what stakeholder is and what the signification of stakeholder. Such stakeholders will include Customers, Suppliers, Staff and Communities. All requirements of stakeholders must be met in order for an enterprise to be considered successful. Therefore the stakeholder view of business is one of the key indicators of success of an organisation. What people outside the organisation think about the success indicator should be? There are some views were collected as follows.