

# Profitability research paper sample

[Business](#), [Company](#)



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While there are many different types of organizations, there are certain characteristics which permeate all organizations. Such characteristics cut across the various sectors in which organizations belong. The primary characteristic that is common to all organizations is that they all have goals which they seek to achieve. Indeed, all the activities of an organization usually revolve around these goals. This is similarly the case when it comes to organizations that are involved in business activities. While they may have many other goals, the principal goal of any business organization is to increase its profitability while at the same time keeping its losses at the bare minimum. The fundamental question that must be answered then is how can organization increase its profitability while keeping its losses at the bare minimum? This is the question many organizations are grappling with in the increasingly competitive and dynamic business world where organizations must be at their best so as to stay ahead of the pack. While there are many <https://assignbuster.com/profitability-research-paper-sample/>

approaches which an organization may use to enhance its profitability, this submission will focus on the role that utilization of resources plays in enhancing an organization's profitability and reducing its losses. The submission will also use Alwaleed Bin Talal and his company, Kingdom Holding Company (KHC), to illustrate how effective utilization of an organization's resources can contribute to a company's profitability.

## **Effective and Efficient Use of Resources**

### The Human Resource

Human resources are the personnel component of an organization. The centrality of the human resource to an organization is highlighted by the fact that an organization cannot exist if it lacks personnel. The human resource is essential to enhancing the profitability of an organization as its productivity has a direct effect on the profitability of the organization. Consequently, an organization must ensure that its human resource is highly productive if it wishes to remain in the profitability zone. Additionally, the importance of getting the right talent cannot be understated for an organization which seeks to maintain profitability. This is because in addition to making crucial decisions affecting the organization, it is people who will also manage the other two categories of an organization's resources namely the physical resources as well as the financial resources. Thus, if an organization wishes to remain profitable, it must hire the best talent available as such persons will be crucial in making strategic decisions that will result in increased profitability for the organization. However, it does not stop at just hiring the best talent. Once it has the best talent there is in the industry in its fold, there is need for the organization to retain this talent at all costs. It is an

undisputed fact that employees who bring great profitability to their organizations are usually in high demand in the market thus an organization must ensure such employees are not “ poached” from its fold.

The third aspect of human resource that an organization must carefully manage if it is to maintain its profitability is that it must ensure it has just the right number of employees for its needs. Any excesses in the human resource will lead to an increased wage bill for the organizations. This will in turn eat into the organization’s profits thus affecting its profitability. Coupled with the issue of the number of employees is the fact that an organization must ensure that the compensation policy of the organization is in line with the organization’s stated goal of increasing its profitability. Consequently, this calls for a well thought out pay structure which will enable the organization to attract and retain the best talent while at the same time not inflicting any dents on the organization’s profitability.

Managing the human resource of an organization also entails measuring the performance of employees. An organization which seeks to remain profitable must put in place sound mechanisms to measure the output of its employees. Such mechanisms include performance contracting where the performance of an employee will be measured against set targets agreed to by the employee. Another method may involve the setting of individual goals for each employee which are in line with the organizational goals. All in all, the overriding objective of both the overall organizational goal and the individual employee goals will be increased profitability for the organization.

## **Financial Resources**

This section of the article will now focus on the management of the financial resources of an organization and its importance in attaining and maintaining an organization's profitability. Financial resources are primarily important for an organization as without finances, the organization will hardly be able to undertake any activities. What exactly does effective management of financial resources call for? This is the precise question that this section will be seeking to answer. Managing financial resources entails the right deployment of the financial resources in the first place. This must then be followed by tracking the performance of the various investment vehicles in which financial resources have been deployed. Making choices on where to deploy an organization's financial resources is of critical importance to its profitability. Indeed, such choices may be the difference between an organization that dwells in the profitability zone and another that is forever rooted in making losses. An organization must therefore be very strategic in terms of its investments. It must only invest in ventures where it is sure of making good returns on its money.

## **Diversification**

Additionally, an organization must seek to diversify its investments as much as possible. In the dynamic business environment of the twenty first century, it is companies that have a wide investment portfolio that will remain profitable. It is therefore incumbent upon any organization that wishes to remain profitable to perfect the art of making sound investment decisions. This will in turn lead to increased profitability as at no one time can all the investments in an organization's investment portfolio perform poorly. Any

poor performance in one venture will be counterbalanced by strong performances in its other ventures with the eventual result being the ability of the organization to retain its profitability.

## **Measuring Financial Performance**

Once an organization has invested its money, there is also need to measure the financial performance of the organization. This is especially so as to establish the profitability of the various ventures it has invested its money in as this will ultimately contribute to the overall profitability of the organization. There are various tools which an organization can use to measure the profitability of its investments in various ventures. As the emphasis of this article is on profitability, the principal tool that will form the crux of the submission of tools for measuring profitability will be the profitability ratios. Profitability ratios are financial ratios used to measure a company's ability to generate earnings in relation to its equity, assets and sales. They also serve the purpose of evaluating the ability of a company to generate cashflows, earnings and profits with relation to the amount of money invested. Any organization which seeks to maintain profitability while simultaneously keeping losses at bay must therefore keep in check its profitability ratios. They are arguably the best pointer as to whether the organization is making the right investment decisions so as to remain profitable.

## **Types of profitability ratios**

There are various profitability ratios. These include, cash return on capital invested, return on sales, return on capital employed, return on equity

among many others. The in-depth analysis of these ratios will be the subject of another discussion as this article primarily seeks to identify ways on how a company can maintain profitability. The importance of profitability ratios in the management of an organization's resources is highlighted by the fact that the different profitability ratios provide different useful assessment points of the financial performance of a company. Some of the profitability ratios such as gross profit and net profit ratios provide useful insights on how well an organization is managing its expenses. The return on capital employed ratio comes in handy when one wants to assess how effectively the capital employed by the organization is generating returns. It is obvious that an organization that wishes to remain profitable must keep an eye on its expenses as well as on the returns generated by its investments. The profitability ratios provide an organization with such tools for measurement and thus are of cardinal importance for an organization seeking to maintain profitability. This is because they enable the organization to identify areas where it has made correct investment decisions and thus further enhance these areas. Similarly, they enable organizations to identify areas where they may have made poor investment decisions and thus take remedial action as soon as possible. The cumulative effect of all these if well undertaken is that the company will maintain profitability and avoid losses.

## **The Physical Resources**

Effective management of an organization's physical resources is also essential if an organization is to maintain its profitability. Without being conclusive to the list, an organization's physical resources may include its physical assets such as buildings, plant and machinery, motor vehicles,

furniture and fittings and equipment. While such things as furniture and fittings may seem to be of little significance, when combined with all the other physical resources, they can have an effect on organization's profitability. For instance, if an organization is in the manufacturing or processing industry, it ought to identify and implement methods that ensure proper maintenance of its plant and machinery. This will in turn reduce the costs that the organization would have incurred to repair the machinery as a result of poor maintenance. Additionally, organizations which seek to remain profitable must investment in the latest technologies which are both efficient and effective. This may in turn reduce costs which would have been incurred to employ people to do the work done by the machines. Additionally, newer technologies present the organization with an opportunity of increasing its product output at the same or lower costs. Eventually, this may lead to more sales for the organization and thus more profits without a commensurate increase in the expenses used to generate such profits. Such an organization is bound to retain its profitability.

Prudent use of an organization's physical resources is also crucial for ensuring that the organization remains profitable. Consequently, an organization must always look for ways to reduce and avoid wastage as this translates to more expenses for the organization and thus reduced profits. An organization must also ensure that it has just the right amount of physical resources for its operations. Put differently, an organization should only have those physical resources which it requires for its optimum operations. Any excesses in terms of physical resources will be an extra and unnecessary expenditure. Extra and unnecessary expenditure will in turn reduce the



organization's profits thus ultimately affecting its profitability.

Generally, effective resource management for an organization is a complex affair as it involves striking the right balance between the three types of resources discussed above. The next section of this submission seeks to make a discussion of a company which has arguably managed its resources in such a manner that has enabled it to remain profitable while keeping losses at bay.

## **Management of Resources by the Kingdom Holding Company**

Based in Riyadh, Saudi Arabia, the Kingdom Holding Company is one of the most successful companies in the world. One of the persons who has key in the attainment of such unrivalled success has been HRH Prince Alwaleed Bin Talal, one of the top investors in the world. This section thus seeks to make an illustration of how HRH Prince Alwaleed Bin Talal manages the profitability of the Kingdom Holding Company. Right from the very onset, one of the distinguishing features of the Kingdom Holding Company is its wide investment portfolio. Through the strategic guidance of HRH Prince Alwaleed Bin Talal, Kingdom Holding Company has invested in a number of high yielding ventures both domestically, regionally and globally. The mere fact that it has diversified investments ensures that it will always maintain its profitability as the chances of all its investments performing poorly at the same time are almost non-existent.

Secondly, HRH Prince Alwaleed Bin Talal manages the profitability of Kingdom Holding Company by ensuring it only invests in strategic high performing ventures or those with a great potential for growth. A look at

some of the companies Kingdom Holding Company has invested in clearly demonstrates this fact. Such companies include Time Warner, EBay, Apple, Four Seasons Hotels and Resorts, Twitter, Motorola, Citi among many others. Most of these are global brands with interest in different areas. By having all of them in its investment portfolio, Kingdom Holding Company has cushioned itself from any problems that may affect one of the companies as it will still be able to derive returns from the other companies in its fold. This has been a key strategy in managing its profitability.

One of the crucial factors in managing profitability is ensuring that you have the right personnel to manage the company or organization. This is captured in one of the founding principles of KHC's investment strategy. The strategy aims at making long term investments in companies which have reputable management teams. Such teams are usually adept in keeping the profitability levels of the company high by ensuring there is a sustained growth of the company's revenues. In essence, HRH Prince Alwaleed Bin Talal appreciates the importance of having the right talent in ensuring the profitability of a business. The logic behind this is simple, provided a company has the right management team and shows promise, KHC will invest in it as in most cases, such companies usually end up yielding great profits for KHC. Ultimately, this contributes to maintaining the profitability of KHC.

HRH Prince Alwaleed Bin Talal has also ensured that he has persons with the right set of skills at the helm of the Kingdom Holding Company. With himself as the chairman, a cursory glance at the rest of the other members shows that they are experts in their different fields. The importance of having a

board comprised of members with such skills cannot be underestimated. To begin with, such a board ensures that the Kingdom Holding Securities makes the best investment decisions. This is because during deliberations on an investment, the board is able to obtain different perspectives from the various members with experience in different industries. Such perspectives are important as they ensure that KHC only invests in ventures that whatever their amount of risk, they possess a strong probability of yielding positive returns.

Arguably, if HRH Prince Alwaleed Bin Talal has ensured that he has only the best at the top management level, this must also be the case at all the levels of the company. In a nutshell, he has built a company comprising of a talented pool of employees who have been a key plank in ensuring that the company remains profitable. It goes without question that in order to manage such human resource effectively; Prince Alwaleed and the KHC provide them with a pay structure which is commensurate with the skills they bring to the company. This is because loss of such talented employees may have negative results on the profitability of the company.

Prince Alwaleed has also used goodwill to manage the profitability of the KHC. While this falls outside the scope of managing either physical, financial or economic resources discussed earlier in this submission, it is also a key resource which has been utilized to the advantage of KHC. Prince Alwaleed has utilized goodwill to the advantage of KHC by building an extensive network of contacts among governments and business leaders globally. This has been crucial to the profitability of KHC as in addition to ensuring that KHC gets more business opportunities, it also provides KHC with a wider market

to sell its products. Ultimately, among the benefits that accrue to KHC as a result of such contacts is increased profitability.

In conclusion, Prince Alwaleed's strategic leadership of the KHC is one worth commending and emulating. As stated earlier in this submission, the principal purpose of a business is to make profits and remain profitable. The profitability that KHC continues to enjoy and will continue to enjoy is due to such strategic leadership. It is an example which other companies that seek to attain and maintain profitability must follow.

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