

***The Implications of Profitability Risks on The Sustainability of Economic Institutions - A Case Study of The Biopharm Complex in Algeria 2020 -2023***

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**Received:** 16/09/2024

**Accepted :** 08/11/2024

**Published:** 31/03/2025

**Abstract:**

*The existence and continuity of organizations depends on achieving profits, so this study explores the crucial relationship between profitability risk management and corporate success and effectiveness of risk management that has a direct impact on the overall performance of firms through research and analysis. The study highlights the important role that profitability indicators such as return on assets (ROA), return on equity (ROE) and return on sales (ROS) play in enhancing a company's stability and long-term sustainability. The study at the Biopharm complex concluded several results, the most important of which is that failure to achieve profitability in the medium term leads to the bankruptcy and demise of these companies.*

**Keywords:** Profitability; Profitability Indicators; Sustainability; Sustainability of companies

**Jel Classification Codes :** M41 ; G32; Q56.

## **1. Introduction :**

Profitability and sustainability at business level represent two major goals that have to be integrated into company's strategy. They are not antagonistic concepts; they can work together in order to develop and improve business performance. Many economic institutions are witnessing several problems and risks, some of which are easily resolved and the others lead to the elimination and demise of the institution, many researchers, academics, and even owners required to search for strategies for the continuity and sustainability of their institutions, among these risks are related to liquidity and profitability, Because the latter are of great importance to the continued performance of these institutions, these risks pose a real dilemma. The activity of any institution depends on profitability, without which institutions cannot carry out their activities. Therefore, owners must find solutions to reduce these risks.

The study tries to answer the following question:

### **How does the profitability risks affect on the sustainability of economic institutions?**

The answer to our question was through the following points:

- Background about the sustainability of economic institutions.
- The impact of profitability risks on the sustainability of economic institutions.

This research presents an analytical study on the impact of profitability risks on the sustainability of economic institutions. It aims to understand the relationship between profitability and corporate performance by calculating the financial ratio of profitability and its role in the continuity of the activity of its institutions.

## **2. Background about the sustainability of economic institutions.**

### **2.1. The definition of sustainability:**

Sustainability, for those interested, describes processes and actions that are continuous and long-term, and allow something to continue over a period of time, which is the process of keeping something going. Hence, we conclude that sustainability in business includes processes and procedures that maintain stable financial solvency over time<sup>1</sup>.

In October 1987, the World Commission on Environment and Development published a report on our future, known as the Brundtland Report, that the term "sustainable development" means<sup>2</sup> : meets the needs of the present without compromising the ability of future generations to meet their own needs<sup>3</sup>.

**2.2. Dimensions of sustainability:** is based on three dimensions which are<sup>4</sup> :

- ✓ **Environmental sustainability:** occurs when the rate of humanity's consumption is less than the rate of nature's renewal and when the rate of pollution generation and greenhouse gas emissions by humanity is less than the rate of nature's restoration.

- ✓ **Social sustainability:** Communities support international human rights by meeting the essential needs of people, such as health care, education, and transportation. They must also protect all people from racial discrimination and respect personal, cultural, and labor rights.
- ✓ **Economic sustainability:** is to obtain optimal independence of the resources of human societies necessary to meet their needs in all parts of the world, meaning that everyone can obtain secure sources of livelihood.

### **2.3. the sustainability of economic institutions :**

Researchers in the scope of sustainability believe that a company's performance must have a broad and comprehensive scope, as it must contain several aspects such as environmental performance, social performance, economic performance, operational performance, and innovative performance, and not only be limited to financial performance, but go beyond that<sup>5</sup>.

Those concerned with sustainability must understand more comprehensively everything that makes a business survive because sustainability is about long-term survival environmentally, socially and economically, and financial managers need to know things and give them their due meaning so that sustainability programs succeed and the company's performance does not fail<sup>6</sup>,

From a business perspective, sustainability leads to profitability, competitiveness and longevity, which means reducing expenses - including future expenses. From the perspective of stakeholders, who believe that the internal and external repercussions of economic sustainability management must take into account:<sup>8</sup>

- the financial performance of a company;
- how the company manages intangible assets;
- its influence on the wider economy; and
- how it influences and manages social and environmental impacts.

Entrepreneurs discover new companies and business models as a result of new competencies or change old methods in new, innovative ways. This is why others have highlighted that there is a significant positive relationship between sustainability and company performance in terms of profitability and that companies must bear more responsibility than maximizing profits. Therefore, business models have been developed. New by combining sustainability and profitability<sup>9</sup>.

### **3. The impact of profitability risks on the sustainability of economic institutions:**

#### **3.1 The definition of profitability:**

The company's profitability is a picture that measures the extent of the company's ability to achieve profits from the operational operations that have been implemented in order to ensure the company's continuity in the future. The high profits achieved by the company increase investors' confidence in investing capital, and also increase the creditor's confidence to provide loans. Hence, it can be said that profitability affects the capital structure. The more profitable the company is, the less the use of debt. The profits obtained by the company will be a signal from management to show the company's prospects that can be seen based on the level of profits obtained by the company, Therefore, profitability affects the value of the company<sup>10</sup>.

#### **3.2 The Importance of profitability ratio :**

- ✓ Profitability is a ratio to evaluate a company's ability to gain profits.
- ✓ This ratio also provides a measure of the level of management effectiveness of a firm
- ✓ profitability is a ratio that measures the overall effectiveness of management focusing on the size of the level of profits obtained in relation to sales and investment<sup>11</sup>

#### **3.3 The importance of profitability indicators on the sustainability of economic institutions:**

Profitability ratios generally measure the ability of companies to generate profits which are central to securities analysis, shareholders and investors. Profitability is also considered the basic criterion for the overall success of the organization. Analyzing profitability indicators is important for shareholders, creditors, potential investors, bankers and the government alike. In order to sustain the activity<sup>12</sup>. this ratios are :

- **Return on Assets** : is defined as the difference between net income and total assets, this indicator expresses the company's ability to achieve profit as a result of the productive use of resources and their effective management, and it is used as a dependent variable in evaluating economic performance. It is computed as:<sup>13</sup>

$$\text{ROA} = \frac{\text{net income}}{\text{total assets}}$$

- **Return On Equity**: is the ratio of net income to shareholders' equity, In practice, most financial analysts take goodwill amortization or impairment losses and nonrecurring items out of net income before calculating return on equity<sup>14</sup>:

$$\text{ROE} = \frac{\text{Net income}}{\text{Shareholders' equity}}$$

- **Fixed Assets Ratio** : shows the share of assets that the company permanently disposes of in its activities and indicates the level of capital investment in technical and production infrastructure. The high level of this indicator shows existence an active investment policy, and if it exceeds a certain level (50%), it may lead to efficient use of working capital and limit the ability to expand current activities. This is given by the following equation : <sup>15</sup>

$$\text{FAR} = \frac{\text{fixed assets}}{\text{Total assets}}$$

- **Return on Sales** : is used to measure the company's operational efficiency and shows the company's ability to make profit from its commercial operations. It also indicates the potential dividends, reinvestment potential and the company's ability to repay the debts. The formula for calculation is <sup>16</sup>:

$$\text{ROS} = \frac{\text{Net income}}{\text{Sales revenue}}$$

#### **.4. Case Study of the Biopharm complex in Algeria:**

##### **4.1 The definition of Biopharm complex :**

BIOPHARM is a private enterprise in the legal form of a company through procedures regulated by it The provisions of Decree No. 75-59 of September 26, 1975 amending the Trade Code , the company was established on October 02, 1991 with a capital of 1,200,000 DZD .

BIOPHARM activities began on October 14, 1991 Conforming to the commercial register, the social object of SPA BIOPHARM is manufacturing, Adaptation and marketing of pharmaceutical products. The social center of BIOPHARM SPA is located at 18 Industrial Area Street, Road no Housh Mohieddine Station, Reghaia, Algiers state, and on August 12, 1993, it changed its former form to a complex to raise its capital to 15,000,000 DZD. The activities include the following<sup>17</sup>:

- ✓ BIOPHARM DISTRIBUTION SPA buying and distribution of pharmaceutical products.
- ✓ BIOPURE SPA re-marketing of total pharmaceutical products.
- ✓ BIOPHARM LOGISTIC SPA Logistics management for the pharmaceutical industry .
- ✓ Human health information SPA promotion of pharmaceutical products.
- ✓ PROFAM SPA partnership Industrials.

The extraordinary general meeting authorizes the transfer of shares of certain shareholders on the Algiers Stock Exchange market with request for admission of securities to trading in stock exchange on the main market of the Algiers Stock Exchange. This transfer will be carried out within the framework of a firm price offer of old shares with a nominal value of 200 dinars

according to the following parameters : Number of shares to be transferred: A minimum of five million one hundred and four thousand three hundred and sixty fifteen shares (5,104,375 shares) and a maximum of twelve million two hundred and fifty one thousand five hundred shares (12,250,500 shares); - Share transfer price: 1,225 dinars<sup>18</sup>.

**4.2 Presentation The Financial Statements of Biopharm complex :**

- the tables below represent financial information of Biopharm complex .

**Table (1) : Balance sheet of Biopharm complex 31.12.2023** **in millions of DZD**

<b>ASSETS</b>	<b>2023</b>	<b>2022</b>	<b>liabilities</b>	<b>2023</b>	<b>2022</b>
<b>Fixed Assets:</b>			Issued capital	5104	5104
Good will	703	703	Consolidated reserves	14280	12512
Intangible assets	146	127	Net result	8505	8431
tangible assets			Postpone again	26478	23210
Land	2018	2018			
Building	750	500			
Other tangible assets	5357	5244			
Assets in progress	13358	9096			
Deferred tax assets	5	5	<b>Total capital</b>	<b>54367</b>	<b>49258</b>
Financial Assets	7007	837	<b>non-current liabilities</b>		
			loans	7818	2796
			Deferred tax and provision	481	530
			revenues recognized in advance		20
<b>Total fixed assets</b>	<b>29345</b>	<b>18529</b>	<b>Total non-current liabilities</b>	<b>8299</b>	<b>3346</b>
<b>Current assets</b>			<b>Current liabilities</b>		
Inventory	23824	22303	suppliers	19300	18203
Clients	28946	26409	tax	1538	1530
Other debtors	4890	5261	Other creditors	6004	6072
tax	2542	2071	Liabilities treasury	5406	4286
Assets treasury Cash	5366	8121			
<b>Total current assets</b>	<b>65569</b>	<b>64166</b>	<b>Total current liabilities</b>	<b>32248</b>	<b>30091</b>
<b>Total assets</b>	<b>94914</b>	<b>82694</b>	<b>Total liabilities</b>	<b>94914</b>	<b>82694</b>

**The source:** Biopharm, Rapport\_Annuel\_2023, p 38-39.

**Table (2) : Balance sheet of Biopharm complex 31.12.2021** **in millions of DZD**

ASSETS	2021	2020	liabilities	2021	2020
<b>Fixed Assets:</b>			Issued capital	5104	5104
Good will	703	683	Consolidated reserves	11340	9874
Intangible assets	78	114	Net result	7814	5570
Land	2018	2018	Postpone again	19867	1167
Building	556	617	Total capital	45416	4877
Other tangible assets	3420	4259	<b>non-current liabilities</b>		
Assets in progress	8600	4139	loans	4160	3600
Deferred tax assets	767	850	Deferred tax and provision	562	638
Financial Assets	209	397	revenues recognized in advance		1
<b>Total fixed assets</b>	<b>16351</b>	<b>13078</b>	<b>Total non-current liabilities</b>	<b>4722</b>	<b>4238</b>
<b>Current assets</b>			<b>Current liabilities</b>		
Inventory	21655	23628	suppliers	19869	19729
Clients	26607	5798	tax	1712	1558
Other debtors	6069	5798	Other creditors	5405	5565
Tax	1575	1211	Liabilities treasury	2558	2831
Current Financial Assets	1001	1002			
Assets treasury Cash	6301	5560			
<b>Total current assets</b>	<b>63208</b>	<b>61259</b>	<b>Total current liabilities</b>	<b>29544</b>	<b>29683</b>
<b>Total assets</b>	<b>79559</b>	<b>74336</b>	<b>Total liabilities</b>	<b>79559</b>	<b>74336</b>

The source : Biopharm, Rapport\_Annuel\_2021, p 40-41

**Table (3) : Sales and Net profit**

**in millions of DZD**

Accounts, years	2023	2022	2021	2020
<b>Sales</b>	82,917	83,818	82139	71475
<b>Net profit</b>	8,505	8,431	7814	5570

The source : Prepared by author based on Biopharm, Rapport\_Annuel\_2023, p 37, Rapport\_Annuel\_2021, p 39,

**4.3 The affect of profitability indicators on Biopharm complex :** Four indicators of profitability were adopted:

- **Return on Assets :**

**Table (4) : Return on Assets** in millions of DZD

Accounts, years	2020	2021	2022	2023
Net income	5570	7814	8431	8505
Total assets	74336	79559	82694	94914
ROA %	7.49	9.82	10.19	8.96

The source : Prepared by author based on Tables No (1) , (2).

This previous table shows us this rate is constantly increasing from 7.49 % in 2020 to 10.19 % in 2022 . then it declines to 8.96 % in 2023 due to fixed assets in progress that are not yet completed at the end of the fiscal year, No depreciation is made on assets in progress. Fixed assets under implementation increased by 4.26 billion, coming from 1.86 billion of establishment of the Profam factory (Alfa project) and in exchange for 1.61 billion for the Bouira project With profit remaining roughly the same.

- **Return On Equity :**

**Table (5) : Return On Equity** in millions of DZD

Accounts, years	2020	2021	2022	2023
Net income	5570	7814	8431	8505
Shareholder' equity	40416	45293	49258	54367
ROE %	13.78	17.25	17.11	15.64

The source : Prepared by author based on Tables No (1) , (2), (3).

As can be seen from the Table 5 show this indicator increased significantly from 13.78 % in 2020 to 17.25% in 2021 then it settled at 17.25% in 2022, which indicates that the company was achieving better returns on shareholders' investments, as a result of good management and increased profits, then it settled at 17.25% in 2022, Before it drops slightly to 15.64 %

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in 2023 because Net profit reached 8,505 million dinars in 2023, compared to 8,431 million dinars For the year 2022, a slight increase of 1% .

- **Fixed Assets Ratio :**

**Table (6) : Fixed Assets Ratio** **in millions of DZD**

Accounts, years	2020	2021	2022	2023
fixed assets	13078	16351	18529	29345
Total assets	74336	79559	82694	94914
FAR %	17.59	20.55	22.40	30.91

**The source :** Prepared by author based on Tablees No (1) , (2).

In the table previous , we found that the measure continues to rise relatively from 17.59% in 2020 to 20.55% in 2021, up to 22.40% in 2023, then it reached 30.91% in 2024, It is a very acceptable indicator unless it exceeds 50%,This development of the index in fixed assets in general and in particular in financial assets, mainly on deposits and paid guarantees. It also includes investment participations in Biopharm.

- **Return on Sales :**

**Table (7) : Return on Sales** **in millions of DZD**

Accounts, years	2020	2021	2022	2023
Net profit	5570	7814	8431	8505
Sales	71475	82139	83818	82917
ROS %	7.79	9.51	10.05	10.25

**The source :** Prepared by author based on Table No (3) .

From the table above, we note that this average continues to rise relatively from 7.79% in 2020 to 9.51% in 2021, up to 10.05% in 2023, then it reached 10.25% in 2024 due to the balanced rise in sales, which is matched by a relative rise in profit. Sales recorded a slight decrease of 1% to reach 82,917 million dinars in 2023 compared to 83,818 million dinars in 2022. This is due to the combined effect of the decrease in distribution activity by (-9%) on the one hand, and on the other hand, the decrease in PROFAM activity to (-54%). This decline is explained by a further distinct decline in the global market (-2%) according to IQVIA data at the end of December 2023. However, net profit amounted to 8,505 million

dinars for the year 2023, compared to 8,431 million dinars, for the year 2022. A slight increase of 1%. Net earnings per share of the group's share is 332 DZD.

## 5. Conclusion:

The research highlights the great importance that profitability indicators represent for the continuity of any economic institution Through financial performance. The results of the research show us indicators of profitability The economic efficiency of the entire economic activity. Financial ratios chosen for the study such as return on assets (ROA), return on Equity (ROE) and Return on Sales (ROS) are among the key indicators in Evaluation of financial performance, which owners use to make decisions about the sustainability of economic entities. profitability and sustainability can drive to a long-term sustainable competitive advantage.

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