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"The role of using strategic profitability analysis in maximizing shareholders value in economic units: An applied study in Dairy factory (Gule Lade)"

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**Keywords. Strategic profit analysis (SPT); Shareholder value measures(EVA,ROE,and ROA).**

**Abstract:** In the light of globalization and the new changes, challenges are becoming bigger, competition is intensifying and enterprises find themselves looking for appropriate solutions to keep pace with changes in the field of science and technology and to maintain their market shares that ensure their survival, and maximize their profits to develop their competitiveness. The clear vision of the future provides sufficient flexibility and the ability to respond to various and fast changes which imposed by the competitive environment. The researcher relied on dairy factory "Gule Lade" data for 2018, 2019, to show the use of strategic profitability analysis and their role on shareholder value metrics to improve the performance of the factory and to achieve the best quality of products at competitive prices that maximizes profits and develops their competitiveness compared to its competitors. The researcher used the practical approach to achieve the objectives of the study and test its hypotheses through the use of strategic profitability components to maximize shareholder value through its selected measures based on the actual data of the "dairy factory Gule Lade" To produce yogurt, cheese and qaimer It is the applied aspect of the study. One of the most important results of the study that the researcher has reached is that there is a relationship between the components of strategic profitability and shareholder value through their measures and the impact between them. The study concluded with several recommendations, the most important of that is the need of industrial companies to pay attention to the local environment in using the technique of strategic profitability analysis for the purposes of cost leadership, product differentiation and growth to keep pace with the changes taking place in the competitive environment, in order to maximize the value of shareholders.

**Keywords.** Strategic profit analysis (SPT); Shareholder value measures(EVA,ROE,and ROA).

## **1. Introduction**

In the last two decades economic units have offered a period of progress and a revolution with reference in the practical environment, and the presence of competition Globalization across multiple industries, plus innovation has accelerated production.

Such events are usually in favor of the consumer, as intense competition leads to lower prices and better quality in manufacturing. and thus achieving its goals in terms of maximizing profitability and competitive position in the labor market because the current era is characterized by rapid changes in the modern manufacturing environment, the emergence of advanced technologies, the reduction of the role of the human element, the scarcity of talent and resources, the emergence of international trade companies and the intensity of competition in light of the presence of open markets for goods and services, and this shifted market orientation from the pattern of seller's markets to the buyer's markets and other things which it is an obstacle for industrial companies that are able to compete, but it has moved from traditional production methods to modern production technology and methods (continuous improvement), which are among the success factors at the present time in a way that helps companies to address the problems that exist in the interior when they are produced by focusing on studying and analyzing various bottlenecks and restrictions and reduce the operating time and evaluation and raise the level of its performance by providing high-quality products at an appropriate low cost and delivering them in a timely manner and at competitive prices to achieve the required level of profit. Analysis of strategic profitability and its role in maximizing the value of shareholders in economic units. The method of strategic profitability analysis of its three components are growth, price coverage and productivity, economic units performed well on its various nonfinancial measures, and operating income this year and the next also increased.

As a result, economic unit's managers might be tempted to declare the cost-leadership strategy of success. However, more analysis are needed before managers can conclude that firms successfully formulated and implemented its intended strategy. Operating income could have been increased simply because prices of inputs decreased or the entire market expanded. Alternatively, a company that has chosen a cost leadership strategy may find that its operating-income increase actually resulted from some degree of product differentiation. To evaluate the success of a strategy, managers and management accountants need to link strategy to the sources of operating-income increases. These are the kinds of analyses that top management and boards of directors routinely discuss in their meetings when evaluating performance. Managers who have mastered the strategic analysis of operating income changes gain an understanding of the levers of strategy and strategy implementation that help them deliver sustained

operating performance. Can economic unit's managers conclude their successful in implementing strategy? They can only if improvements in the company's financial performance and operating income over time can be attributed to achieving targeted cost savings and growth in market share finally in turn to maximize shareholders value.

There is no doubt that the vast majority of industrial, commercial and service organizations are racing towards global competition, to achieve profitability and reach its highest levels, and that the success of these organizations extends their effects to be reflected in the economy and activity on the state and world level. It is necessary to compare what happened to our situation and what others have achieved, in terms of the success of institutions and global competition. As a result of the rapid and significant development of commercial and industrial activity, (Ronald, et al, 2000).

As a result of the criticism directed at traditional financial and non-financial performance measurement tools, the change in the manufacturing environment, and in view of the increasing intensity of competition between economic units, some of these units have tended to use the technique of strategic profitability analysis in order to better and more comprehensively maximize the value of their shareholders, as some studies and literature have indicated. The previous indicated that there are positive repercussions for the link between strategic profitability and shareholder value, as well as strengthening the competitive position of economic units. Based on studies of (Tyler, 2010), (Wang, 2006), the effective implementation of this technology is considered one of the main causes of success in these units and is reflected in their long-term strategies and goals, strategic profit helps improve performance, increase revenues and reduce expenses as the industrial companies in Iraq are witnessing great competition due to the presence of large companies each of these companies try to remain within the level of competition in the market, which requires better evaluation of their performance, and therefore it can be said that the problem of the study is to explain the role of strategic profitability analysis on maximizing the value of shareholders in those Companies. The study problem can be clarified through the following main questions: What is the extent of applying strategic profitability in the economic unit of the research sample?

Is there a relationship between the strategic profitability analysis and maximizing the shareholder value in the economic unit research sample? Is there an impact of the

strategic profitability analysis on maximizing the value of the shareholders in the economic unit research sample?

This study aims to achieve the following: Examining the extent of a relationship between strategic profitability and maximizing the value of shareholders in the economic unit, the research sample; Examining the impact of applying strategic profitability and maximizing the shareholders' value in the economic unit, the research sample; Coming up with recommendations and proposals that contribute to providing an information base for decision-makers in the study community about the strengths and weaknesses in implementing strategic profitability and maximizing the value of the shareholders in the economic unit, the research sample and to allow them to improve the level of services provided by these units; Contributing to the richness of the accounting literature related to strategic profitability and maximizing the value of the shareholders in the economic unit, the research sample. Through reviewing the literature of the study and previous studies related to the subject, it was noted scarcity and limitations in studying these variables.

The importance of the study is highlighted through the following: The importance of the subject of the study, as the importance of strategic profit analysis emerged as one of the methods Modern management accounting, in a systematic way consisting of several components (growth, price coverage, productivity) so as to cover all aspects of the economic unit's work, in addition to maximizing profitability, which is the main goal of any economic unit; The practical importance of this study for decision-makers in the economic units under study is evidenced by the necessary information about the reality of performance, and the level of application of profit-maximizing methods in them. The study also takes its importance from the importance of the company that is the subject of research in the local environment.

**Based on the study problem and its objectives, its hypotheses can be formulated as follows:**

The technique of strategic profitability analysis can be applied as one of the management accounting methods to maximize the value of shareholders in the economic unit of the study sample; There is a relationship between the analysis of strategic profitability and maximizing the value of shareholders in the economic unit,

the study sample; There is an effect of the technique of strategic profitability analysis on maximizing the value of the shareholders in the economic unit, the study sample.

Based on the study problem, the independent and dependent variables can be shown as follows: Independent variables: Strategic profitability analysis: These are those analyzes that affect measures of shareholder value, and it consists of (Growth, Price recovery and productivity); The dependent variable: Shareholder value indicators: These are those measures that are affected by strategic profitability analyzes, and they consist of (Economic Value Added (EVA), Return on Equity (ROE), Return on Assets (ROA)). There are other ratios that indicate the value of the shareholders, but the researcher is satisfied with these three measures due to the limited data of the factory as the research sample.

## **2. Literature Survey:**

The study (Treyer, 2011) aims to use the strategic profitability analysis as a tool to control the identification of variances that occurred at the end of the year, then find and treat them, in order to find out whether the variances are positive in an attempt to continue or negative to try to address them in order to evaluate companies. Assagaf et al. (2017) has examined that strategic profitability has a significant positive impact on the financial strength, which means there are opportunities for management to perform profitability practice of earnings management as strategic to enhance the level of financial strength of the company. Lynch (2018) aims to put a budgetary strategic profitability analysis technique that can be described as financial plan (profitability planning) for an organization in order to expanding its market base by focusing on following a product differentiation strategy. Kaur and Narang (2009) examined the shareholder value creation using two value based metrics of financial performance viz., EVA and MVA for a sample of 104 Indian companies.

The study supported the claim that EVA influences the market value of shares. Chauhan and Bhayani, (2010) has examined the impact of mergers on shareholders' value creation in Indian industry. The result suggests that firm's shareholders value creation is highly dependent on Operating expenses, Profit margin, ROCE and Expense ratio. The inter company and inter industry analysis results indicate there is no positive impact of mergers on shareholder value creation. Pratapsinh Chauhan (2012) examines the shareholder's value creation in the Indian petroleum industry, the study aims to

analyze the performance of the company we have divided petroleum into public sector firm and private sector firms. EVA has been found to have significant correlation with OP, NOPAT, EPS, Market Capitalization and MVA figures of firms of both the sectors. Bistrova & et al, (2014) the purpose of the paper is to detect the most important factors affecting the value creation process in companies, the authors revealed that the sustainable shareholder value is based on the long-term and stable economic performance, accompanied by the properly implemented corporate governance system, high CSR standards, rational capital budgeting politics and high financial results accountability. Arhin (2018) found support for the arguments that a of return on assets and equity as the main dependent variable both are direct effect on the firms strategic donation commitment, and Independent variables are the profit margin and turnover both are indirect effect on the firms strategic donation commitment to enable the company to maintain its status quo or reputation in the market. Study by (Venugopall, et al, 2019) aims to give an insight into shareholder value creation in the companies and tries to investigate the need for finding the superior measure among the shareholder value performance measures and recommends the need for reviewing the traditional performance methods.

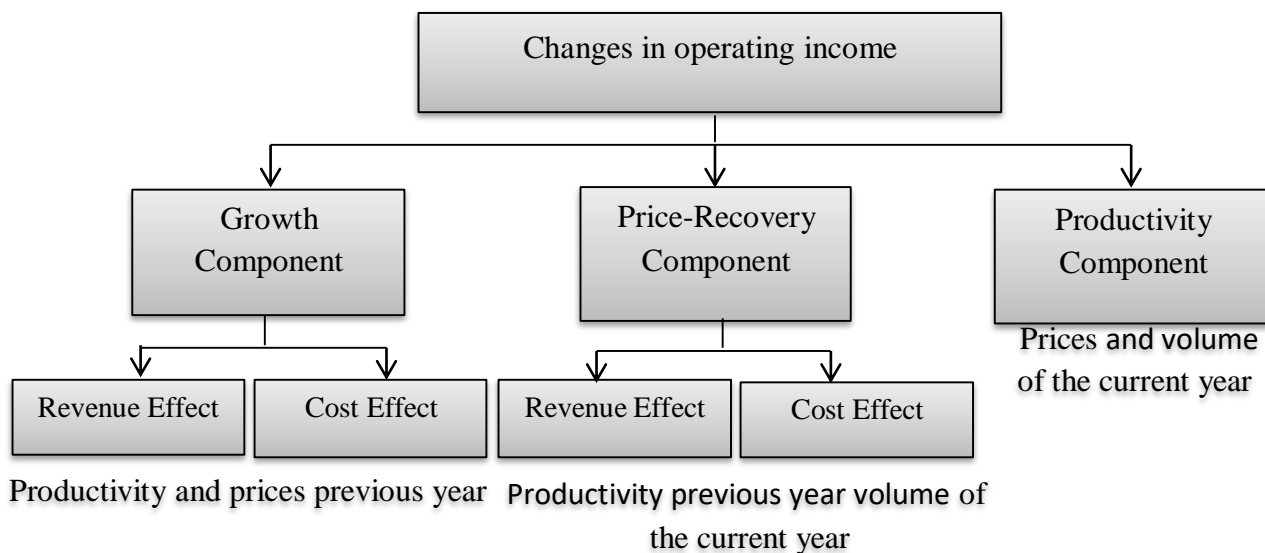
The researcher presented a number of researches related directly and indirectly to the topic of the research, as this research is an extension of previous research that dealt with the topic of "The role of using strategic profitability analysis in maximizing shareholders value in economic units: An applied study in Dairy factory (Gule Lade)", But this research is distinguished is: 1. The current research tried to demonstrate the use of strategic profitability analysis and its role through (relationship and impacting) in maximizing the value of shareholders in economic units (Research sample), which did not mention previous research, 2. The current research in the dependent variable focused on three measures "EVA, ROE, and ROA" But other previous research talked about other measures in addition to the current measures, 3. The current research focused on the possibility of applying the components of strategic profitability and measures of shareholder value and their importance in the local environment. To the best our knowledge, this research will be the first at the level of the country and the Kurdistan region.

## **2-1 Concept of strategic profitability analysis:**

According to Aulia & Ikhwana (2012), current strategic management decisions and actions that lead to the effective development help in achieving company's goals. Companies need to determine alternative targets that enhance and attain maximum profitability. As a result, managers should focus on enterprise resource utilization to optimize the achievement of these goals. A firm which operates in a competitive environmental has to adopt various strategies to survive profitably into the market where it operates. Porter in its generic strategy theory has suggested that a firm can survive profitably in the long term if it chooses its generic strategy according to the environment in which it operates and which conforms to the overall corporate objectives. A firm would be profitable if it is either a cost leader i.e. it can produce its product at a lower cost than its competitors and enjoy maximum market share or if it produce its product with some peculiar features which make it different from others.

Whichever, approach a firm may choose it has to be very careful on the part of actual performance and any deviation from the set performance target. To achieve its objectives, it has to put some performance measurement mechanism into place so that any deviation can be measured and corrective action can be taken. Profitability Analysis can be useful to measure the performance of a firm against the acceptable standards. Profitability can be analyzed as per the requirement of the management, to assist them to identify the critical success factors and to take appropriate decisions, so the strategic profitability analysis is can described that how firm matches its own capabilities with opportunities in marketplace in order to achieve its objectives. Operating profit a firm as affected by various components which are responsible for changes in the revenue and cost. A change in the profit may be due to revenue or cost or both the factors(Mudde & Sopariwala 2014). For analyzing operating income, we spread our analysis into three main areas or components which are (a) Growth Component measures change in operating income that the increase in revenues minus the increase in costs, or it measures the increase/decrease in revenue and in costs due to selling more/less quantity units from the previous period (Caster & Scheraga, 2013), (b) Price-Recovery Component; the price recovery component of the change in operating income measures solely the effect of changes in selling price on revenues minus the effect of changes in input prices on costs to produce and sell (Dater & Rajan, 2018), assuming no productivity changes. It, therefore, measures the ability of revenue changes to cover changes in the cost of inputs, assuming no productivity change (Don & Maryanne, 2007),and (c) Productivity Component is concerned with producing

output efficiently, and it specifically addresses the relationship of output and the inputs used to produce the output. Usually, different combinations or mixes of inputs can be used to produce a given level of output. (Hansen & Mowen, 2007). The former can be expressed according to the following diagram:



## 2-2 Concept of shareholders value:

Shareholder value or shareholder wealth as it is often referred to, can be regarded as being equivalent to maximizing the purchasing power of current shareholders which is derived through capital gains (an increasing share price) and dividend payouts. Variables that have a direct effect on shareholder wealth developments include the magnitude of cash flows derived from business activities, the timing of such as well as the risk linked to them. The main indicator of shareholder wealth is represented by the ordinary share price. In accordance with the efficient market hypothesis the price for which the share is traded on the stock exchange is to reflect the financial community's expectations about potential dividend payments as well as investor perceptions concerning the long term forecast of the company's development in the competitive environment. Consequently, maximizing the share price can be used as a suitable proxy for shareholder wealth maximization since it correlates to the augmentation of the firm's value in terms of its market capitalization. (Müller, 2011). Shareholder value, also known as *shareholder value maximization* or the *shareholder value model*, is a term used in the world of business that implies that the definitive measure of a commercial enterprise's success is on how much it enriches its stockholders. Shareholder value is all about putting shareholders first; a business' number one priority should be to maximize the total value of its shares ( Rappaport , 2006), Shareholders are very much choosy for their interest into the business and they like management to come up with very specific solution, To measure shareholder value, many investors look at a company's fundamentals such as, EVA can be taken as the net operating profit minus an appropriate charge for the opportunity cost of all the capital



invested in an enterprise. As such, EVA is an estimate of true economic profit or the amount by which earnings exceed or fall short of the required minimum rate of return that shareholder and lenders could get by investing in other securities of comparable risk.( Suresh & Sengottaiyan, 2015), and ROE which measures the return a company generates on its net assets, or return on invested capital, with respect to ROA, Return on Assets is an indicator of accounting measurement of value creation of shareholders. It is one of the profitability ratios that measure the efficiency of the use of company assets in generating profits for the company.( Siburian & Yohanes, 2019).

**3. Case study: show the financial statement factory and its description;**

The researcher has chosen dairy factory "Kule Lade" to prove his hypothesis and achieve its goals, as the factory is considered one of the eligibility factories in the local environment and prepares its milk products with standard specifications to meet the needs of consumers in the Kurdistan region of Iraq. It produces three types of products (Yogurt, Cheese and Qaimer). The factory contributes to the development of livestock by using raw milk as a raw material in the manufacture of its products instead of imported powdered milk. Where as the factory consists of three production lines, which are the yogurt production line, the cheese production line, and the qaimer production line. Therefore, the researcher has classified the cost elements into direct material costs, which are represented by the cost of milk purchased as a raw material for each of the production line, and the conversion costs, which are represented by direct labor costs and indirect costs. Table No. (1) (2) shows a statement and analysis of the distribution of costs to production line for the years 2018 and 2019 as follows:

Table (1) cost of milk purchased for each product line and in total for the years 2018 & 2019

Details	Yogurt-product line		Cheese-product line		Qaimer-product line		Total	
	2018	2019	2018	2019	2018	2019	2018	2019
Number of liters milk purchased	537600	571200	336000	403200	134400	151200	1008000	1125600
Purchasing price per liter (\$)	1.07	1.1	1.07	1.1	1.07	1.1	1.07	1.1
Cost of milk purchased (\$)	575232	628320	359520	443520	143808	166320	1078560	1238160

Table (2) conversion costs for each product line and in total for the years 2018 & 2019

Details	Yogurt-product line		Cheese-product line		Qaimer-product line		Total	
	2018	1019	2018	1019	2018	1019	2018	1019
Direct labor	22400	22850	15440	15710	11960	12140	34800	50700
Factory overhead*:								

Fuel & Oils	15737	13548	4946	8129	5792	5418	26475	27095
Other material	487	493	292	296	195	197	974	986
Indirect labor	14438	15283	6663	7170	2775	3112	23876	25565
Electricity	7438	7123	4463	4274	2975	2848	14876	14245
Food	5554	6030	3332	3618	2221	2412	11107	12060
Rent	7800	7500	4680	4500	3120	3000	15600	15000
Maintenance & Repair	5400	5058	3240	3035	2160	2023	10800	10115
Depreciation	10000	11000	6000	6600	4000	4400	20000	22000
Total factory overhead	66854	66035	33616	37622	23238	23410	123708	127066
Total conversion cost**	89254	88885	49056	53332	35198	35550	158508	177766

Factory overhead\*the factory uses activity-costing system to assign its factory overhead conversion cost\*\* Conversion costs (labor and overhead costs) for each year depend on production processing capacity defined in terms of the quantity of liters of milk which in 1260000, 1356000 liters for the years 2018 and 2019 respectively that Factory can process.

As of the factory's revenues for the three products, there was an increase in production lines in 2019 relative to 2018, and the following table is in the name of the revenues of each product line separately and as a total for the years 2018 and 2019.

Table (3) sales revenue for each product line and in total for the years 2018 & 2019

Details	Yogurt-product line		Cheese-product line		Qaimer-product line		Total	
	2018	2019	2018	2019	2018	2019	2018	2019
Number of unit sold of output	500200	566200	89900	100800	19800	23500		
Selling price per litter (kg) (\$)	1.44	1.39	5	5.4	11	10.5		
Sales revenue of product (\$)	720288	787018	449500	544320	217800	246750	1387588	1578088

The researcher prepared a factory income statement for each product line in a way that facilitates of the process of analyzing strategic profitability and its variances in terms of growth, price coverage and productivity, the following table is in the name of the proposed income statement for the years 2018 and 2019.

Table (4) proposed income statement for each product line and in total for the years 2018 & 2019

Details	Yogurt-product line		Cheese-product line		Qaimer-product line		Total	
	2018	2019	2018	2019	2018	2019	2018	2019

Sales revenue of product	720288	787018	449500	544320	217800	246750	1387588	1578088
(-) Total cost :								
Cost of Milk purchased	575232	628320	359520	443520	143808	166320	1078560	1238160
conversion cost	89254	88885	49056	53332	35198	35550	158508	177766
Total cost	664486	717205	408576	496852	179006	201870	1252068	1415926
Operation income(\$)	55802	69813	40924	47468	38794	44880	135520	162162

During viewing the lists and statements and field visit to the factory, the researcher reached to the total invested funds (total assets) in the amount of 678850\$ and 700810\$ and owners' equity in the amount of 545790\$ and 558760\$ for the years 2018 and 2019 respectively, in addition to the available capacity of the factory, as well as there is an amount of fixed income tax of 1650\$ dollars annually..Apply the independent variable and dependent variable of case study; in this section the researcher will test his hypothesis on data of the factory, as follows; First hypothesis: The technique of strategic profitability analysis can be applied as one of the management accounting methods to maximize the value of shareholders in dairy factory "Gule Lade" The researcher calculates the change in operating income as shown in table (5) firstly, then the strategic profitability components of growth, price coverage and productivity for the purpose of the reasons of having variances in the factory's profit figure between the years 2018 and 2019 as follows:

Table (5) change in operating income for each product line and in total for the years 2018 & 2019

Details	Yogurt-product line		Cheese-product line		Qaimer-product line		Total	
	2018	2019	2018	2019	2018	2019	2018	2019
Sales revenue of product	720288	787018	449500	544320	217800	246750	1387588	1578088
(-) Total cost :								
Cost of purchasing Milk	575232	628320	359520	443520	143808	166320	1078560	1238160
conversion cost	89254	88885	49056	53332	35198	35550	158508	177766
Total cost	664486	717205	408576	496852	179006	201870	1252068	1415926
Operating income(\$)	55802	69813	40924	47468	38794	44880	135520	162162
Change in operating income	14011 F*		6544 F		6086 F		26641 F	

F\* =favorable

Component of strategic profitability: as an independent variable of the research; (Dater & Rajan, 2018)

Growth Component of Change in Operating Income; it has two analysis, they are:

\* Revenue Effect of Growth (REG)

$$\text{REG} = (\text{AUS2} - \text{AUS1}) \times \text{SP1}$$

\* Cost Effect of Growth (CEG)

$$\text{CEG for VC} = (\text{UIP2 in 1} - \text{UIP1}) \times \text{IP1}$$

$$\text{CEG for CC} = (\text{AUC3} - \text{AUC1}) \times \text{PUC1}$$

Price-Recovery of Change in Operating Income; it has two analysis as well, they are:

\* Revenue Effect of Price Recovery (REPR)

$$\text{REPR} = (\text{SP2} - \text{SP1}) \times \text{AUS2}$$

\* Cost Effect of Price Recovery (CEPR)

$$\text{CEPR for VC} = (\text{IP2} - \text{IP1}) \times \text{UIP2 in 1}$$

$$\text{CEPR for CC} = (\text{PUC2} - \text{PUC1}) \times \text{AUC3}$$

Productivity of Change in Operating Income; it has an analysis as well, this is:

\* Cost Effect of Productivity (CEP)

$$\text{CEP for VC} = (\text{UIP2} - \text{UIP2 in 1}) \times \text{IP2}$$

$$\text{CEP for CC} = (\text{AUC2} - \text{AUC3}) \times \text{PUC2}$$

Where;

AUS1= Actual unit sold in prior year.

AUS2= Actual unit sold in current year.

SP1= selling price in prior year

CEG for VC= Cost Effect of Growth for variable cost.

UIP2 in 1 = Unit of input required to produce current year in prior year.

UIP 1 = Unit of input used to produce in prior year.

IP1= Input price in prior year.

CEG for CC= Cost Effect of Growth for conversion cost.

AUC3 = Actual unit of capacity in prior year because capacity exists to produce current year output in prior year.

AUC1 = Actual unit of capacity in prior year.

PUC1= Price per unit of capacity in prior year.

PUC2= Price per unit of capacity in current year.

UIP2= Unit of input used to produce in current year.

AUC2= Actual unit of capacity in current year.

Now the researcher applies the components of strategic profitability as shown in table (6) in order to discover the reason for the existence of the change in the factory profit figure as the research sample

Table (6) components of strategic profitability

Product-lines	Components of Strategic Profitability								Total
	Growth			Price Recovery			Productivity		
	REG	CEG for VC	CEG for CC	REPR	CEPR for VC	CEPG for CC	CEP for VC	CEP for CC	
Yogurt	95040F	75900U*	0	28310U	18256U	6662F	41068F	6293U	14011F
Cheese	54500F	43590U	0	40320F	11302U	500U	29108U	3776U	6544F
Qaimer	40700F	26873U	0	11750U	4785.5U	2165F	9146.5F	2517U	6086F
Total	190240F	146363U	0	260F	34343.5U	8327F	21106.5F	12586U	26641F

U\* =unfavorable

Table (7) Change in operating income in Yogurt-line product

Details	Operating income in 2018	Revenue & Cost effect of growth in 2019	Revenue & Cost effect of price recovery in 2019	Cost effect of productivity in 2019	Operating income in 2019
	(1)	(2)	(3)	(4)	(5)=1+2+3+4
Revenues	720288	95040 F	28310 U	-----	787018
Costs	664486	75900 U	11594 U	34775 F	717205
Operating income	55802	19140 F	39904 U	34775 F	69813

	 14011 F
Change in Operating income	

Table (8) Change in operating income in Cheese-line product


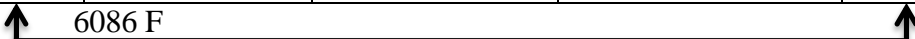
Details	Operating income in 2018 (1)	Revenue & Cost effect of growth in 2019 (2)	Revenue & Cost effect of price recovery in 2019 (3)	Cost effect of productivity in 2019 (4)	Operating income in 2019 (5)=1+2+3+4
Revenues	449500	54500 F	40320 F	-----	544320
Costs	408576	43590 U	11802 U	32884 U	496852
Operating income	40924	10910 F	28518 F	32884 U	47468
	 6544 F				
Change in Operating income					

Table (9) Change in operating income in Qaimer-line product

Details	Operating income in 2018 (1)	Revenue & Cost effect of growth in 2019 (2)	Revenue & Cost effect of price recovery in 2019 (3)	Cost effect of productivity in 2019 (4)	Operating income in 2019 (5)=1+2+3+4
Revenues	217800	40700 F	11750 U	-----	246750
Costs	179006	26873 U	2620.5 U	6629.5 F	201870
Operating income	38794	13827 F	14370.5 U	6629.5 F	44880
	 6086 F				
Change in Operating income					

Measures of shareholders value: as a dependent variable of the research

Economic Value Added (EVA), if

$$EVA = NOPAT - (WACC * CI)$$

B) Return on Equity (ROE), if

$$ROE = NOPAT / E$$

C) Return on Assets (ROA), if

$$ROA = NOPAT / TA$$

Where;

NOPAT = .Net operating profit after tax

WACC = .weighted average cost of capital

CI = E= Capital invested= Owners' equity

TA = Total assets.

Table (10) Results of shareholders value indicators

Details	Data of 2018	Data of 2019	Change in percentage
EVA:			
E	545790	558760	2.3%
× WACC	13%	13%	0%
=Finance charge	70953	72639	2.3%
NOPAT	133870	160512	20%
(-)Finance charge	70953	72639	2.3%
EVA	62917	87873	40%
ROE:			
NOPAT	133870	160512	20%
÷ E	545790	558760	2.3%
ROE	24.5%	28.7%	17%
ROA:			
NOPAT	133870	160512	20%
÷ TA	678850	700810	3.2%
ROA	19.7%	23%	16.7%

Second hypothesis: There is a relationship between the analysis of strategic profitability and maximizing the value of shareholders in the economic unit, the study sample. The researcher discusses how Factory's management accountants subdivide changes in operating income into components that can be identified with product differentiation, cost leadership, and growth. The growth component is important because it helps Factory's managers evaluate if successful cost leadership increased market share and helped it to grow. Subdividing the change in operating income to evaluate the success of a strategy, however, is that, in this case, management accountants compare actual

operating performance over two different periods. As the result was shown in first hypothesis, the growth, price, and productivity components of the change in operating income. In general the factory as a research sample that has been successfully at cost leadership will show favorable growth (Revenue & Cost effect of growth in 2019) that contributed (19140F, 13827F) and productivity (Cost effect of productivity in 2019) that contributed (34775F, 6629.5F) to the increase in operating income in both product-line (Yogurt and Qaimer) on one hand. On another hand, the factory has been successfully differentiated its products will show favorable price-recovery (Revenue & Cost effect of price-recover in 2019) that contributed (28518 F) in cheese-line product. But price-recover contributed to decrease operating income by (39904U and 14370.5U) for yogurt and qaimer product, as well as productivity by (32884 U) for cheese product. It is noted from Table (10) that the results of the economic value-added index, rate of return on assets, and rate of return on equity was a good indicator to measure the profitability of the factory, especially in 2019, where the indicators of economic value added, return on assets and return on equity increased by 40%, 17% and 16.7%, respectively, compared to the year 2018, and this indicates the sufficiency of the factory management in achieving profits resulting from investments in the total assets and an indication of the correct investment decisions in it and the effective exploitation of the total assets, which in turn increases the wealth of the owners. Through the results of the analysis, it becomes clear to the researcher that there is a relationship between components of strategic profitability and the indicators of shareholders value, In terms of cost leadership of the growth and productivity components in relation to the yogurt and cheese-lines product, as well as the product differentiation with respect to the qaimer-line, this led to a high percentage of owner-value indicators in the research sample. Based on the results of analyzing the relationship between the strategic profitability analysis and measures of shareholders value (EVA, ROE and ROA), the researcher can confirm the validity of accepting (proving) the second hypothesis which states: "There is a relationship between the analysis of strategic profitability and maximizing the value of shareholders in the economic unit, the study sample". Third hypothesis: There is an effect of the technique of strategic profitability analysis on maximizing the value of the shareholders in the economic unit, the study sample. It appeared to the researcher through analyzing the results of the factory that there is an effect of the components of the strategic profitability analysis on maximizing the value of the shareholders (the owners of the factory, the research sample), so that the growth component through reducing the price of yogurt and qaimer product (following the cost leadership strategy) led to an increase in the number of yogurt and qaimer sold in In the year 2019, this in turn has an impact on the economic added value, which increased by 40%, as well as an increase in rates of return on equity and total assets by 17% and 16.7% respectively in 2019 compared to 2018. The same is true for the price coverage component by increasing in the price of the cheese product (following the product differentiation strategy), as it led to an increase in the number of cheese sold regardless of the increase in the purchase price of raw milk in 2019, and this has an impact on the profit number of the factory, which results in an increase in the shareholder value indicators of EVA, ROE, and ROA. As for the productivity component in the strategic profitability analysis, which led to a preference in utilizing the factory input from raw



milk to increase the output of the factory, especially in yogurt and qaimer in an economic and efficient manner, which in turn has an effect on maximizing the value of shareholders through an increase in the number of units sold in the year 2019 compared to 2018. Based on the results of analyzing the relationship between the strategic profitability analysis and measures of shareholders value (EVA, ROE and ROA), the researcher can confirm the validity of accepting (proving) the third hypothesis which states: "There is an effect of the technique of strategic profitability analysis on maximizing the value of the shareholders in the economic unit, the study sample".

## **Conclusion**

The analysis of strategic profitability through its three components: growth, price coverage, and productivity have a role through its relationship and its impact on maximizing shareholder value, so that both growth and productivity can be improved (favorable) by following a cost leader strategy by improving the quality of operational processes and reducing material damage, wasted time, eliminate activities that do not add value, discovering constraints and bottlenecks and addressing them, all of these lead to a reduction in the unit cost of the product and the consequence of reducing the selling price of products on one hand, and on the other hand the component of price coverage by following the policy of the product differentiation strategy within raising the level of product quality as well as increasing the selling price, all of this has an impact on maximizing the owners' value through its three indicators of economic value added, rate of return on owners' equity, and rate of return on total assets. Therefore, through analyzing the factory data as a research sample, the researcher concluded that the factory followed the policy of cost leadership strategy for the producers of (yogurt and qaimer) and the product differentiation of the product (cheese). This led to an increase in the factory's profit figure in 2019 by an amount of 26,641 compared to the year 2018 and affected the maximization of the owners' value reflected on its proposed relevant indicators of (EVA, ROE, ROA), with increases of 40%, 17%, and 16.7%. Based on the aforementioned, the components of strategic profitability have a relationship with maximizing shareholder value, as well as the components of strategic profitability have an impact on maximizing shareholder value, and as a result, the components of strategic profitability analysis have a role in maximizing shareholder value.

## **5. Study limits: The study limits include:**

1. Spatial boundaries: The researcher chose dairy factory "Gule Lade" In the governorate of Erbil, a sample was studied in order to arrive at his objective and prove his hypothesis.
2. Temporal boundaries: The data in the financial statement of the factory will be used as it is the study sample for the years 2019 and 2020.

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