

Financial Management as a Tool for Achieving Stable Firm Growth

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Abstract: *The motivation behind this study is to show that monetary administration in the firm is a device for accomplishing stable firm development and long-haul firm soundness while issues in firm monetary administration led to the powerlessness of firms to guarantee manageable development of their worth. This issue is pertinent for firms in all nations. The principal targets of this paper are: to dissect elements of worth of the biggest Latvian firms, to decide the drivers of these elements and to lay out the principal issues easing back the development of firm worth, which are connected with the disadvantages in monetary administration, and to give ideas to taking care of these issues. This study examinations monetary administration cycles and distinguishes a few critical issues in monetary administration*

Keywords: Financial management, firm worth, strategy for limited income

I. INTRODUCTION

The creators accept that monetary administration in the firm is a device for accomplishing stable firm development and long-haul firm steadiness. The steadiness of the firm can be characterized as the capacity of it to work in a practical harmony under various monetary conditions and to guarantee that the firm doesn't need mixtures of outer assets to keep up with its tasks. The historical backdrop of improvement of each firm shows that monetary administration is expected to accomplish this state quantitatively and subjectively.

One of the main elements of the administration of the security of the firm is the accurately picked methodology under the continually changing financial climate. The creators of this paper characterize the methodology of firm as a drawn-out improvement technique, which characterizes a circle of activity, its means and structures and which is coordinated towards accomplishing security. Planning the system permits breaking down the fate of a firm and arranging the goals, circles, scales and potential consequences of its activity by relating them to the sources and expenses of assets. A cutting-edge firm without a procedure is only an assortment of resources, which are burdened with liabilities.

To relate the administration of steadiness of firms to other, more natural components of monetary administration, one can characterize a bunch of methodologies, which incorporates:

- A monetary system, which is coordinated to accomplish a specific degree of significant worth for the firm, further develop pointers, for example, return on value or resources, increment investor esteem, and so on.);
- A promoting or market tasks technique, normally coordinated to expanding the piece of the pie in tasks, administrations or clients;
- A faculty the board methodology;
- A data innovation the executives procedure.
- A superior methodology is to coordinate firm administration towards boosting the worth of the firm, which incorporates various components, for example, getting benefits, potential volume increment of firm tasks, expansion in the investor worth and stable profits.

The previously mentioned targets decide the super quantitative parts of security the executives of the firm:

Accomplishing a specific degree of productivity, considering the satisfactory degree of dangers. This goal requires the making of the framework for overseeing incomes, costs and benefit as well as the volume of resources and liabilities;

Keeping up with firm liquidity, by improving income and the design of resources and liabilities. For this situation, the errands of firm monetary administration are to deal with the income, work on the construction and nature of resources and liabilities, control fluid resources and gauge the liquidity position of a firm;

Keeping up with the nature of firm resources by breaking down their construction, benefit (Samsonova and Solovyova, 2012).

The significance of planning strength the board for firms increments alongside globalization and monetary market coordination. An effective monetary administration is the vital element of the strength methodology. Monetary administration technique includes streamlining resource structure and overseeing resource productivity, which are required on the grounds that the climate and industry are quickly changing because of various elements (one of them is development).

The job of development as a critical element for serious achievement and expanding the worth of the firm has been continually ascending as the world economy and business get more globalized and interconnected.

A course of development comprises of getting ready and executing creative changes and incorporates interrelated stages including a complicated entirety. The consequence of this cycle (a fundamental way to deal with creative changes) is an executed and used change in business tasks or navigation - a development. It is in this setting that this paper puts a thought of development in monetary administration of the firm.

A foundational approach invigorates the administration of the firm to keep an essential balance between the necessities of, e.g., specific divisions and the firm overall. A foundational way to deal with the executives permits firm supervisors to carry out their roles, like estimating, planning, organisation, the board, and control all the more effectively. It likewise helps eliminate reasons for going with wasteful choices.

A foundational way to deal with the executives makes potential for development in the worth of the firm. This paper contends that main adjusted firm turn of events - a specific connection between benefits, resources and their development rates - can be proof of powerful administration of the firm that is the capacity to oversee firm worth.

The embodiment of firm monetary administration is that it must be pointed toward expanding the market worth of the firm and its portions. At the end of the day, all activities by the firm, scientific strategies and the board devices must be coordinated towards a one single objective - to assist the organization with expanding its worth, settling on the administrative choice making process grounded in key contemplations of firm worth. Monetary administration of the firm depends on its financial connections to the outer business climate, market processes, counterparties, expected financial backers, as well as entrepreneurs.

Imaginative monetary administration of the firm, in view of a foundational approach and far-reaching utilization of current monetary instruments and advancements, is the strongest device equipped for expanding firm worth in the present moment as well as the long haul.

The topicality of the assertions carried out in the examination develops with the development of firm, presentation of new lines of business, and expansion in intricacy of items (Leyen's, 2011). Firms become progressively multi-business in their temperament. Multi-business firms frequently experience troubles in administration. For this situation, business could ultimately become wild, which thusly can bring about loss of seriousness and exit from the market; consequently, the job of a foundational approach in the association of the monetary administration of a multi-business firm expands (Savina and Kuzmina-Merlino, 2014).

The point of this paper is to show that monetary administration of the firm, when seen as a framework, is really an inventive way to deal with firm administration. By and by, firm administration is never led in view of a foundational approach, and downsides in monetary administration processes lead to the failure of the organizations to guarantee a reasonable expansion in esteem; nonetheless, turnover and resource size of the firm might rise.

This issue is significant for firms in all nations. The primary targets of this exploration are: to show the huge connection between firm worth and the soundness of its tasks, to examine elements of worth of the biggest Latvian firms, to decide the drivers of this elements and, at long last, to lay out the fundamental issues easing back the development of firm worth, which are connected with the disadvantages in monetary administration, and to give ideas to taking care of these issues.

Regardless of the development in resources and net turnover, Latvian firms (organizations) vary extensively in the elements of their worth. In any case, any sort of business (whether delivering products, offering types of assistance, exchanging, and so on.) targets boosting benefit, holding or expanding portion of the overall industry, long haul improvement, and expanding its worth (Samsonova, 2004). Business procedures in practically all organizations contain such ideas as "esteem-based way to deal with business the board", "esteem the executives", "esteem drivers", and

"expansion in esteem added for firm worth upgrade". These ideas have one shared objective - deciding and further expanding firm worth. Subsequently, firm worth administration ought to be the critical capability of the monetary administration.

In many enormous firms, the capacity of investors to influence firm worth has diminished, while that of firm administration has developed; in any case, the current examination shows that administration isn't successful all of the time. In such conditions, routine examination and the executives of firm worth are crucial for offer investors a chance to know about the productivity of the contributed capital. Past examination has thought about a wide assortment of determinants of firm worth, including, specifically, the job of the executives, for instance, the board responsibility for (Lins, 2003), possession structure and corporate administration (Lemmon and Lins, 2003; Villalonga and Amit, 2006). This examination reveals insight into a portion of the explanations for the connection between firm administration and worth and gives suggestions to the executives how to increment firm worth.

In the created markets of Europe, USA, and Japan, firm worth examination and the board have proactively turned into a standard cycle, while in European change economies these cycles have been applied exclusively in the beyond twenty years. Still monetary administration issues to be settled so as to increment firm worth are normal for all organizations no matter what the area or country, they are situated in.

Obviously surveying firm worth is a tedious and emotional interaction. Experts and monetary experts can utilize different methodologies, techniques, and apparatuses to get various valuations of very much the same firm, even in situations when firm still up in the air for inner motivations behind improvement and examination, as opposed to deals purposes (Chen and Jassim, 2013). There are a few explanations behind this:

Current firms (organizations) are muddled designs joining different resources - from genuine property to altruism, and various sorts of resources have their own particular elements;

Organizations work in a quickly evolving climate; accordingly, while settling on essential choices they need to think about different outside and inside factors (see Area 3). They likewise frequently need to act under vulnerability concerning asset ventures and future outcomes (Hasan, Kobeissi and Wang, 2011);

While surveying monetary steadiness of a firm, one needs to assess both the entirety of the resources (genuine property, hardware and machines, stock, monetary ventures, immaterial resources) and execution - current and future pay, improvement possibilities, and serious climate, as well as to contrast the firm thought of and other comparable firms.

II. FINANCIAL MANAGEMENT AS AN INNOVATIVE APPROACH TO INCREASING THE VALUE OF A FIRM

The fast advancement of present-day market economies, expanding intra-European and worldwide monetary ties, and heightening contest raise the significance of proficient monetary administration for key leaders at the firm.

This, thusly, permits investors to accomplish their essential objective - expanding firm worth. Then again, the examination of changes in firm worth proposes the requirement for development of monetary administration apparatuses and approaches. The scope of strategies and approaches can be very broad, which is likewise exhibited by various meanings of monetary administration, as there is no brought together, by and large acknowledged assessment on the quintessence of monetary administration in logical writing.

Rather a few definitions and depictions of monetary administration have been proposed:

monetary administration is a vital piece of generally firm administration processes (Amoako et al, 2013);

monetary administration is related with drawing in monetary assets and their proficient use for the accomplishment of the firm targets (Maheswari, 2010);

monetary administration is a functional action in business that manages securing of resources important for a proficient firm activity and compelling utilization of these resources (Massie, 1986); □ monetary administration is a course of putting the accessible assets to the greatest benefit according to the drawn-out perspective of business targets (Brealey, 2008);

monetary administration is a utilization of general administrative standards to the area of monetary independent direction (Howard and Upton, 1953).

Every one of the above definitions share the affirmation for all intents and purpose that monetary assets address the wellspring of financial advantage of a firm; in any case, neither of these definitions makes reference to business objectives and systems.

There is no agreement in the writing on the job of monetary administration of firms on the lookout and speculation financial aspects. The arising job of the monetary administration is related with the development of a unique industry of monetary administrations (Laconic, 2010) and the need of overseeing firm worth (Stanciu, 2013). Fama brings up that the market worth of firm stock fills in as a proportion of its capacity to produce future income (Fama, 1970). Starting here of view, the principal mission of firm monetary administration is to expand its ongoing business sector esteem. The need to execute the firm procedure brings about the requirement for the investigation of qualities and construction of the monetary administration framework, examination of speculation and funding models, utilizing the components of vital and employable monetary administration, the purported short-run monetary administration (Nobility, 1988) or the drawn-out monetary administration approach (Slope and Sartoris, 1995). Firm administration can likewise take explicit choices influencing firm worth, for instance, changing to administrations, which can increment firm worth, whenever oversaw fittingly or broadening wellspring of funding (drawn-out, 2014; Samsonova, 2014).

Specialists having a place with various schools have a common vision of the job of present-day monetary administration and its fundamental objective communicated in the improvement of market worth of the firm (Attrill, 2002; Brigham and Ehrhardt, 2013); thusly, the fundamental idea of monetary administration is firm worth administration and counteraction of issues in monetary administration of the firm. The objective of the monetary administration is to guarantee prosperity of proprietors or to increment market worth of the firm or worth created by the association, as well as reasonable turn of events and long-haul dissolvability of the firm (Brigham and Ehrhardt, 2013; Attrill, 2002). What's more, without externalities and syndication, social government assistance is augmented when each firm in an economy boosts its complete market esteem (Jensen, 2001). As per each of the creators, issues in the monetary administration clearly adversely affect its worth. Consequently, the primary idea of monetary administration is the administration of firm worth. Pragmatic arrangement of the monetary administration ought to be founded on specific hypothetical stage and the creator has supported perspective on the job of monetary administration: monetary administration of a firm pointed toward accomplishing key objectives is a particular course of arranging, execution, control and the board navigation, which is focused on administration, organization, and productive usage of subsidizing sources, fixed and current resources at vital and functional levels to guarantee long haul practical turn of events and development of government assistance of proprietors and market worth of the firm (Savina, 2014).

Execution of this essential rule of monetary administration includes considering of outer and interior variables impacting firm execution.

A significant element impacting the consequence of monetary administration is risk. The idea of hazard implies instability and vulnerability related with economic situations, macroeconomic cycles, and so on. It's obviously true that vulnerability is connected with the absence of information and fragmented data. Assuming it is feasible to dole out probabilities to introductory factors, the conceivable scope of results not entirely settled. This scope of results is, somewhat, a proportion of hazard (French and Gabrielli, 2004). As such, it is the likelihood that pay acquired from putting resources into the firm being assessed will be higher or lower than anticipated. Surveying firm worth, it is essential to remember that there are various kinds of dangers and no ventures or exchanges in the states of market economy can be totally without risk.

Two gamble classes affecting firm worth can be separated in any firm: fundamental and non-foundational chances. While foundational risk, by definition, is outside the control of firm proprietors as it relies upon the market circumstance, non-fundamental gamble, by definition, is inside the control of proprietors as it isn't affected by market factors. A few dangers, for example, market risk, are foundational fundamentally, while others, e.g., gambles related with stock administration, are non-foundational chances. In any case, many dangers can have the elements of both foundational and non-fundamental dangers. These blended dangers can altogether influence firm worth. In any case, there are still conversations about what dangers ought to be viewed as not reasonable and what dangers could be diminished with the assistance of particular measures, and how these dangers ought to be surveyed and forestalled (Sanguinaria, 2013).

III. THE ANALYSIS OF FIRM VALUE DYNAMICS OF THE LARGEST LATVIAN FIRMS

To find issues connected with guaranteeing an expansion in firm worth, in the current examination the creators concentrate on the progressions in firm worth of the biggest Latvian firms during the period from 1998 until 2014. The current exploration utilizes the way to deal with firm valuation that depends on current and future pay. This approach accommodates the utilization of the technique for limited income (consequently alluded to as DCF). DCF strategy is broadly utilized by and by and explored in logical writing in the circle of capital venture arranging and firm market esteem evaluation.

This valuation strategy can possibly be perhaps of the most exact one, as various rates can be utilized as a markdown rate, including the weighted typical expense of capital (hereinafter alluded to as WACC). By picking the rebate rate equivalent to the cost of firm value, the investigator actually accepts that the best elective task is the continuous monetary movement of the firm. DCF examination initially has been thoughtfully presented by I. Fisher (Fisher, 1930) and John B. Williams (Williams, 2012). Further these strategies were created in progress by T. Copeland, T. Koller, J. Murrin, J. Hirsh Leifer and A. Damodaran. (Copeland, Koller and Murrin, 2000; Hirsh Leifer, 1958, 1970; Damodaran, 2012).

The DCF strategy and the examination of results are acted in stages (Gordon, 2013). The estimate of income incorporates ID of its length and type, as well as the evaluation of elements deciding the income. Bookkeeping of the potential gamble related with this income should be possible utilizing the accompanying strategies: sans risk identical technique (Roback and Mayers, 1966) or the strategy for risk-changed rebate rate (Houng-Yi Chen, 1967). Every one of these techniques enjoys its own benefits and inadequacies; in any case, hypothetically the two techniques ought to guarantee acquiring comparative outcomes.

However, the DCF strategy is just an estimating instrument, it permits assessing and looking at firm market esteem at various time spans. The subsequent firm worth structures the reason for pursuing monetary choices. Applying this technique, the examiner needs to think about revenue instalments, cost of value, obligation to-value proportion, WACC, profit before interest, charges, deterioration and amortization. The pointers above basically portray the framework that is overseen by the course of monetary administration. They address the objects of monetary administration. Consequently, the abatement in the total list of firm worth determined with the DCF strategy mirrors the issues of monetary administration of the firm, as for this situation the primary objective of monetary administration isn't accomplished. Deciding firm worth, the ongoing WACC of the organizations is determined. In the examination, the creators consider the firm worth as net present worth of free income; the chose rebate rate is equivalent to the firm WACC.

All broke down firms were multi-business firms, i.e., they were taken part in different sorts of business exercises. Changes in firm worth are related not just with monetary signs of tasks (e.g., net turnover, absolute resources), yet additionally with the viability of monetary administration; accordingly, changes in firm worth are a significant boundary that shows the adequacy and nature of monetary administration.

Involving the information of monetary reports of the organizations in the Latvian Register of Undertakings for the period from 1998 till 2014, the creators broke down firm worth of the biggest Latvian firms and determined the standard deviation of firm worth, net turnover, and absolute resources for ten biggest Latvian firms.

In the estimations of firm worth of the biggest Latvian firms, the creators utilized the strategy created by A. Damodaran (2012), which requires picking a rebate rate equivalent to the WACC. The creators utilized the gamble free rate - the loan fee of the Latvian five-year Depository obligations of the relating year - to work out the WACC, following Damodaran (2012) as distributed in the authority government sources. The nation's gamble premium has been determined involving Latvia's appraising by the Moody's evaluating organization in the comparing year (Depository of the Republic of Latvia, 2014). Unlevered market beta has been utilized in consistence with the examination by Ernst and Youthful for each firm as per the essential kind of movement. Terminal worth has been determined by J.R. Hitchner technique (Hitchner, 2011; Hitchner and Mardo, 2011).

The markers portraying the examination of changes of firm worth of the biggest Latvian firms are summed up in Table I.

TABLE I

PARAMETER A OF TREND OF FIRM VALUE, TOTAL ASSETS AND NET TURNOVER, AVERAGE LINEAR, STANDARD DEVIATIONS OF THE CHANGES IN THE VALUE OF THE LARGEST LATVIAN FIRMS (1998–2014)
(AUTHORS' CALCULATIONS ON THE BASIS OF DATA OF THE REGISTER OF ENTERPRISES OF THE REPUBLIC OF LATVIA)

Firms	Parameter A of trend of firm value	Parameter A of trend of total assets	Parameter A of trend of net turnover	Average linear deviations of firm value, Ls	Standard deviations of firm value, Ls
1. JSC Latvijas Kuģniecība (shipping company)	-86 630	8726 267	3395 156	5545 510	8013 262
2. State JSC Latvijas Jūras administrācija (maritime registry)	-10 086	-382 843	-119 162	115 250	176 961
3. JSC Rīgas siltums (heat supplier)	127 822	4468 797	6160 121	663 731	872 324
4. Lattelecom Ltd. (telecommunications)	127 027	3497 535	499 088	3 039 775	3472 332
5. JSC Latvijas Gāze (natural gas)	384 026	40 573 345	24 300 911	16 848 147	25 345 772
6. State JSC Latvijas gaisa satiksme (air traffic control)	789	756 327	613 301	430 230	611 744
7. State JSC Latvijas Pasts (postal services)	96 752	3180 577	1831 223	981 644	1210 383
8. State JSC International Airport "Rīga"	34 836	4957 637	1755 313	1212 549	1526 714
9. JSC Latvenergo (electricity supplier)	834 090	159 682 850	38 630 094	38 716 519	53 319 234
10. State JSC Latvijas Dzelzceļš (a railway company)	1219 111	30 427 583	16 869 595	7174 380	10 094 987

The examination of changes in firm worth shows that, regardless of the expansion in net turnover and all out resources, firm worth is fairly unpredictable as shown by elevated expectation deviation (component of unpredictability or fluctuation). In light of the summed up monetary information of the organizations, patterns of the progressions in firm worth were drawn up. Now and again, these progressions show negative patterns, which proposes that organizations can't guarantee maintainable expansion in their worth. The consequences of estimations show variances of significant worth, which demonstrate that essential objective of any firm - expansion in its worth - isn't accomplished.

Indeed, even in situations when the patterns of changes in firm worth are positive, the point of the pattern bend is multiple times not exactly the point of the bends of changes in all out resources and net turnover (which is confirmed by the upsides of the boundary and of the pattern condition). This implies that the paces of development of complete resources and net turnover are many times higher than those of the firm worth (see Table I).

The way that an expansion in net turnover and absolute resources doesn't guarantee suitable expansion in firm worth mirrors the issues in monetary administration of firm worth. As the firm worth and markers remembered for its computation address the essential components of the oversight framework, which are impacted by the executives during the time spent monetary administration, it very well may be reasoned that the abatement in firm worth determined with DCF strategy reflects issues in monetary administration.

To screen issues in overseeing firm worth, it is important to foster a sound two-level arrangement of monetary files (Savina, 2010), which would assist with guaranteeing an even monetary administration, i.e., the association among vital and functional levels of the monetary administration. Records of the essential level ought to mirror the essential targets of the firm. Files of the essential level ought to be planned based on a monetary piece of Adjusted Scorecard. Records of the functional level ordinarily describe the methods of accomplishment of key goals, essential monetary assets, and monetary condition of the organization (see Fig. 1).

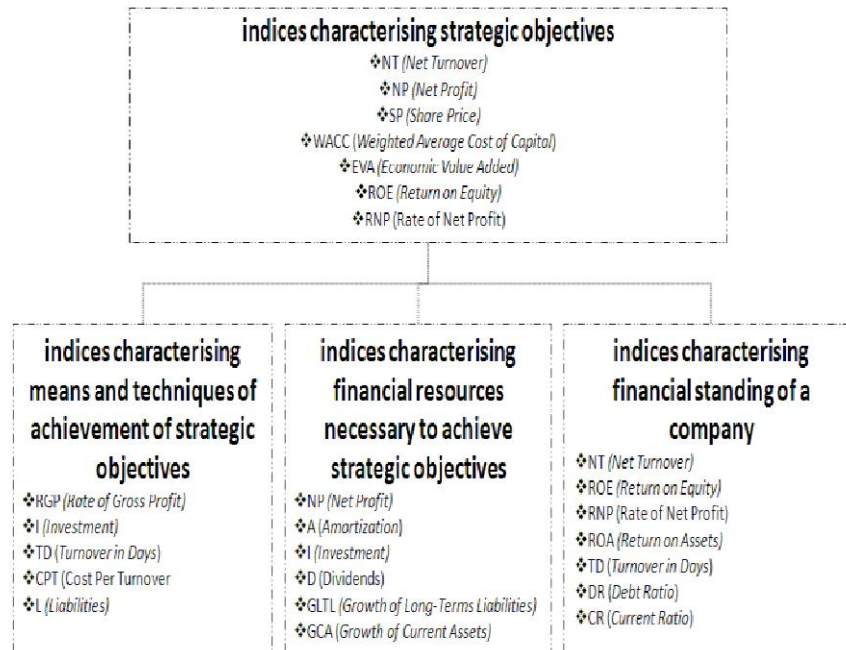


Fig. 1. The system of coherent financial indices (Savina, 2014).

To play out a point-by-point examination of the issues in monetary administration of a firm, gaining admittance to private data of the particular firm is vital. Monetary administration data is, obviously, a business mysterious in the confidential area; subsequently, the creators, having summed up the monetary data and the aftereffects of the examination of monetary administration of state-claimed firms, where more data is freely accessible, which was accessible to outer onlookers (Savina, 2014), have reached determinations and given suggestions to improve the monetary administration of the organizations and arrangement of expansion in firm worth, which can be utilized by all organizations.

IV. SUGGESTIONS

In view of the aftereffects of exact examinations, the creators give suggestions for reinforcing the firm monetary administration and firm security.

The current exploration contends that the lessening in firm worth as show by the DCF technique mirrors the lacks and issues in monetary administration of the organizations. The creators accept that there are the accompanying principal lacks in the monetary administration:

Spending plan of the organizations is built without thought of key objectives;

There are inconsistencies between a useful methodology of firm administration and business rationale, as hierarchical design of the firm in view of a utilitarian methodology is centred around subjection ordered progression and doesn't give due consideration to the ordered progression controlling liability regarding the outcome;

The bookkeeping framework doesn't meet the necessities of planning and cost esteem assessment; information for the investigation is gotten with a deferral;

Inadequate, restricted utilization of techniques and apparatuses of monetary administration;

Fragmentary nature of exercises focused on the decrease of monetary dangers;

Inadequate association of individual strategies and apparatuses of monetary administration;

Natural methodology overwhelms while going with monetary and venture choices, which, generally, depends on the experience of firm administration and not on the fundamental methodology;

The creators accept that these lacks are unavoidable in the monetary administration of many firms; hence, wiping out these lacks is an earnest issue in the administration of any firm. To accomplish this, the current exploration recommends the accompanying developments to firm administrators and proprietors:

Over formation of an arrangement of lucid monetary pointers, two degrees of monetary markers ought to be framed. The arrangement of lists gives an exhaustive perspective on the monetary remaining of a firm. The examination of financial plan execution in such a case transforms into the examination of a predetermined number of figures.

All pertinent business cycles and exercises ought to be distinguished and ordered.

Over arrangement of monetary construction and rectification of hierarchical design, coordination and endorsement of standards control working of the monetary construction of the firm.

The current instruments of monetary administration ought to be applied at the phase of check and examination of the outcomes, in particular:

- Taking advantage of all open doors for the movement-based costing model, including the investigation of clients and productivity of conveyance channels;
- Examination of execution of business cycles and focuses of monetary obligation;
- Checking monetary deviations; detail of deviations by individual parts is an instrument for the examination and evaluation of firm execution, useful base for going with the board choices on the advancement of business exercises and improvement of the creation interaction;
- Utilization of the monetary and monetary investigation of spending plan execution lists for the appraisal of monetary place of the firm;
- Improvement of hazard the board framework by pursuing administration choices as per the proposed calculation: (a) recognizable proof of hazard regions; (b) complete recording of potential dangers; (c) risk appraisal and examination, including assessment of likelihood, everything being equal, assurance of the peril level of each gamble and positioning dangers by danger level; (d) assurance of conceivable adequate gamble level; (e) elaboration of measures for the decrease of hazard so much that would permit abstaining from chance and diminishing likelihood of hazard appearing; (f) elaboration of measures for covering conceivable monetary misfortunes.

Reengineering of business processes, including the accompanying stages:

- Investigation of the business interaction;
- Assurance of business processes that require changes as indicated by the recently settled models;
- Assurance of the technique of reengineering, including recognizable proof of the proprietor of business process, development of a functioning gathering, examination of current business process (useful embodiment and central concerns), improvement, and transformation of business processes or the production of a pristine business process;
- Advancement of proposals for the improvement, changing, extremist transformation of business cycles or presentation of new business processes;
- Useful measures, execution control;
- Examination of the outcomes (confirmation of congruity of the outcomes with the set undertakings).

These creative measures would work on the monetary administration of firms and guarantee their economic advancement by accomplishing interconnection between all degrees of monetary administration. This would guarantee the accomplishment of key objectives of the firm and a subsequent expansion in the firm worth.

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