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1.0 INTRODUCTION

Finance is critical for all organizations. It is the study of how to allocate scarce resources over the time. A good finance study, will lead to a good financial decision and result to a good organization growth. Most organization fail in sudden due to wrong finance decision which will highly impact the organization's overview and result to collapse of share price in stock market. The concept of finance exists to ensure good allocation of resources to benefit the firm although in long-run. Good allocation is a result of the study over quantitative figures. In organizations, they will never miss out of finance department as it is the fundamental of the whole organization. This finance department will consist of finance managers who deserve our praises and our blames over their financial decisions. The logic is very simple, when the finance manager made a good finance decision, it will reflect back on the firm's wealth positively and they do deserve the praise from the shareholders who are actually owners of the firm. The other way around, these finance managers will be bombarded and continuously blamed by the shareholder if they made a wrong decision which resulted to poor firm wealth. The word wealth mentioned here refers to how good the firm's share price in the stock market. The price represents the growth or success rate of the firm and shareholder's value (due to share price value). The most crucial fact is; share price does not "truly" reflect the firm's performance, growth or success. But in finance studies, we happen to skip this statement because it is merely just a statement that cannot be supported with logic because we only believe that good decision will result good price and bad decision will result to bad price. Anyway, the crucial fact is still visible in the stock market globally. Even the world biggest mobile phone group, Vodafone faced the crucial fact recently in July 2008 when their price was undervalued or under-estimated due to unexpected change in share price a day after they announced that their expected revenue would be at the bottom of a previously stated forecast range. Vodafone immediately reacted to the situation by announcing £ 1 billion share buyback plan on 23rd of July 2008.

"LONDON: Mobile-phone group Vodafone announced a surprise £1bil share buyback programme yesterday, saying a big share price fall in the wake of Tuesday's trading update left the stock undervalued. Vodafone shares slumped almost 14% on Tuesday after the group said its full-year revenue would be at the bottom of a previously stated forecast range, denting hopes the Britain-based company would be relatively resilient to an economic downturn." – The Star newspaper, 24 July 2008.

2.0 TEN PRINCIPLES OF FINANCIAL MANAGEMENT

Principles of financial management can be mentioned a list of guideline for financial management activity to make a good decision. Yet it can be used as a tool to measure your decision before executing or announcing any financial decision. Not only for the finance department of the firm as these principles are useful guidelines for each and every individual to make finance decision which is common in our every day's live. We spend money everyday, either to buy or sell, and that is finance matter. We can apply this principle into our daily life decision making when we put this principle is very simple manner. On the other hand, for organizations, these principles do look simple but more meaningful as the impact of applying or not applying these principles is very visible on the firm's performance. This statement is supported with example or case studies for each of the principle explained below.

2.1 The Risk-Return Trade-off

Save today, spend tomorrow. The statement sounds too good. The question arise is; how good it is to spend tomorrow rather than today? Spending is consumptions, therefore if we were to spend tomorrow and not today, we do expect a reasonable return for delaying our consumption. Your money represents your consumption power. Thus you expect better consumption power as a reason to delay your consumption. Spending on buying shares is not really consumption but it is a saving to enhance your consumption power in future. What I mean is; if you got RM 10,000 today and you can spend it on yourself by purchasing a bike. The RM 10,000 is your consumption power. If I asked you to 'stop, do not spend now. Spend next month.' You will question me back 'what is the benefit for me?' This situation shows that you are expecting return (benefit) to delay your consumption. And the demand for the return will be greater than the anticipated rate of inflation.

On the other hand, risk does take part as well in your decision to delay your consumption. There will be several options out there for you to save the money into and they do come with different risk level. The higher the risk is, the higher the return is. This risk and return relationship born based on investor's view on how promising the return of certain investments. The simple example; government bonds is less risk and low return while company shares is high risk and high return. Even the company shares can be sub-evaluated that; popular or large company share returns is low while small, unpopular, or newly launched company share returns is high. See the chart below;

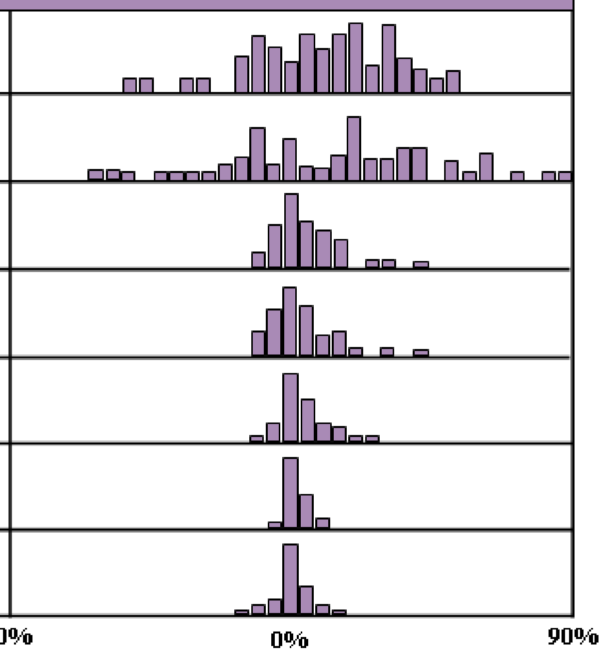
Code	Counter	Last	Change	Open	Day High	Day Low	Vol	Action
6947	DIGI	22.300	0.300	22.600	22.600	22.300	2	
3034	HAPSENG	2.330	0.030	2.300	2.350	2.300	575	
1961	IOICORP	4.740	0.080	4.660	4.860	4.620	90	
1635	IOIPROP	0.00	0.00	4.220	0.00	0.00	0	
1155	MAYBANK	6.950	0.00	6.950	7.000	6.850	3	

Source: KL-Stock.com

DiGi.Com Berhad is large firm and popular than Hap Seng Consolidated Berhad but their change in share price is really telling the different story because Hap Seng offers better return compare to Digi. Therefore investing in Hap Seng is risky than investing in Digi due to their organization size and popularity. Below is the simple chart designed by

Professor Olgun Fuat Sahin, Ph.D. to explain risk and return from various form of investment.

Series	Average Return	Standard Deviation	Distribution
Large-company stocks	13.3%	20.1	
Small-company stocks	17.6	33.6	
Long-term corporate bonds	5.9	8.7	
Long-term government	5.5	9.3	
Intermediate-term government	5.4	5.8	
U.S. Treasury bills	3.8	3.2	
Inflation	3.2	4.5	



Source: Ten Principles of Financial Management by Professor Olgun Fuat Sahin, Ph.D.

2.2 The Time Value of Money

The money value today is never the same as money value next year. That is the theory. Therefore if we want to save RM 1000 today, assume that we keep the cash and not deposited in any bank. After a year, if we are about to spend that money, the product or things that we could buy is not as much as last year. This is because the value depreciates as time goes by. This is why we see the same figure RM 1000 but it has different value. In finance, we must aware of future value and present value. The present value is always higher than future value if it was not invested properly like in our case; we kept the RM 1000 in cash within investing or depositing into any investment or bank account. The value drop is merely depending on the inflation rate and other factors. Therefore if we are about to invest the money (let me remind again that investing is not spending but it is a saving), we must make sure the return (future value) is equal to present value. In business environment, this time value of money is the main reason for ‘depreciation’ to exist. Otherwise if the value is the same always over the time, the word depreciation will have no use in any accounting or finance neither books nor papers. This principle will add more caution to finance managers in decision making. This applies not only for investment but also in purchasing office equipment or machinery. The best example would be the Song Nam Industries, South Korea case. Whereas Song Name purchased a machine for 2.2 billion and the value depreciated 15% on book value. This purchase must be looked at as an investment because they are about to make money through manufacturing products using that machine. After a year, the product which was made and sold was lower than the expected sales target but the machine is still depreciate 15% over the one year time which is nearly 330 million while their expect sales was 500 million and real sales was 250 million. The loss will be solid 80 million. This shows a poor finance decision in investing 2.2 billion on a machine that never profit them.

2.3 Cash – Not profits – Is king

Accounting profit is just the figures. No matter how nice or great that figure is, it has no influence or power as much as cash do. Accounting profit is profit earned through sales and it includes credit sales. The firm won’t have the real spending power, either to reinvest or pay dividend if they do no have the cash although the credit sales is high to sky. Cash you can see is what you can believe. Even when we are about to buy share of certain company, we should see and measure the company's performance or stability based on their cash flow and not accounting profits. Without a solid cash flow, the company might go into bankruptcy all the sudden. And even though there are chances for the company to get additional finance from the bank to continue its activity, they might end up using the cash in hand profit to pay the additional loan's interest and this seriously cut down potential dividend for the shareholders who are actually the owners. If a firm not working toward maximizing the shareholder wealth through payment dividend or reinvest, the owners will lose confident on the firm and might sell back their shares. This will give a big impact to the firm in long-run and no way to go else than bankruptcy. The case of Atlantic Lumber Traders visualizes the text. The firm was founded in 1983 in Saint John to wholesale lumber in the Atlantic Provinces. The firm's cash balance was very low but the accounting profit was still reasonable. Until in 1988 when they encountered serious loss and their cash flow wasn't even sufficient to balance back the loss. They immediately seek Maritime Bank for financial aid. Below is their financial statement whereas it shows their poor cash flow from the 1985 although profits was very encouraging the firm until 1988.

Atlantic Lumber Traders
Balance Sheet($000s) - December 31

	1985[1]	1986[2]	1987[2]	1988[2]
Assets				
Current				
Cash	$ 0	$ 0	$ 0	$ 0
Trade Receivables (Net)	645	938	1,174	688
Other Receivables (Net)	2	39	79	101
Inventory	99	184	570	262
Prepaid Expenses	0	0	12	5
Due from Shareholders	0	33	0	0
Income Tax Refund	0	0	1	71
Total Current Assets	746	1,194	1,836	1,127
Fixed Assets				
Land & Buildings	0	0	1,150	0
Equipment & Machinery	6	6	58	19
Leasehold Improvements	9	9	10	13
Accumulated Depreciation	(4)	(6)	(69)	(20)
Total Fixed Assets	11	9	1,149	12
Other Assets				
Intangible Assets	18	0	0	0
Investments in/Due from	0	60	180	0
Deferred Gtee Charges	0	0	11	0
Notes Receivable	0	0	0	328
Total Other Assets	18	60	191	328
Total Assets	$ 775	$1,263	$3,176	1,467
Liabilities & Shareholder Equity				
Current Liabilites				
Bank	$ 471	$ 668	$ 985	$ 886
Trade Payables	207	425	933	467
Income Tax Payable	14	11	0	0
Current Portion LTD	12	12	44	0
Total Current Liabilities	704	1,116	1,962	1,353
Long Term Liabilities				
Bank LTD	29	17	501	0
Other LTD to related Co. 1	0	0	225	0
Other LTD to related Co. 2	0	0	200	0
Due to Shareholders[3]	0	0	30	30
Total LT Liabilities	733	1,133	2,918	1,383
Total Liabilities				
Shareholder Equity				
Common Shares	1	1	1	1
Retained Earnings	41	129	257	83
Total Shareholder Equity	42	130	258	84
Total Liabilities & Shareholder Equity	$ 775	$1,263	$3,176	$1,467

Source: Acadia Institute of Case Studies (AICS)

2.4 Incremental Cash Flows

Incremental cash flow is either positive or negative cash flow once a project taken compared to if it was not taken. This will ensure that the project that you have took is actually worth it to contribute back in positively to the firm in long-run or for certain period while the project is conducted. The cash flow is compared directly to find the incremental cash flow. In another way, the cash flow is simply the cash flow directly associated with a project. They do not occur if the project is rejected. The very crucial part is not to confused which are the expenses involved with the project and which are not. For example, if firm A about to take project C, they hire consultant to assess and evaluate the project C either profitable or not. The firm A need to pays consultation fees of RM 20,000 to the consultant. This RM 20,000 had nothing to do with the incremental cash flows because this cost will occur regardless they took the project or not. So this RM 20,000 should be excluded from the cash flow. The example case is Photon Manufacturing who has proposed project whereas they need to install tools worth of $ 3 million. And the tool will last for 5 years. The experts have estimated sales increase of $ 800,000 per year with the new tool in place. The cash flow can be computed and the incremental cash flow can be taken to decide either to take or drop the proposed project. The incremental cash flow illustrated below;

Photon Manufacturing Expansion Project Incremental Operating Cash Flows, Years 1–5

	t_1	t_2	t_3	t_4	t_5
+ Change in Sales	+ 800,000	800,000	800,000	800,000	800,000
+ Reduction in Nondepreciation Operating Expenses	+ 100,000	100,000	100,000	100,000	100,000
− Change in Depreciation Exp.	− 999,000	1,335,000	444,000	222,000	0
= Change in Operating Income	= (99,000)	(435,000)	456,000	678,000	900,000
− Tax on New Income (See Note)	− (39,600)	(174,000)	182,400	271,200	360,000
= Change in Earnings After Taxes	= (59,400)	(261,000)	273,600	406,800	540,000
+ Add Back Change in Dep. Expense	+ 999,000	1,335,000	444,000	222,000	0
= Net Incremental Operating Cash Flow	= 939,600	1,074,000	717,600	628,800	540,000

Source: Financial Management; Principles and Practice by Gallagher and Andrew

2.5 The Curse of Competitive market

Competition is key barrier for the firm to conduct big profitable project. Because there is no such thing big profit as long as the competitive is open to any player. Profit from a certain project is limited due to competition. Although the competition does not exist in the beginning, the people are well informed of the market and new competitor will be born to just to eat your market share. This is one of the financial management principles that should be considered carefully in decision making before taking any project. This competitive issue does play big role to threat the firm before or after entering the industry. This is mentioned as a ‘curse’ because there are no way you can avoid it. If the competition does not exist in first, they will be born later and it is a curse on all firms. The Viagra case will be best sample; Pfizer Inc. launched their Viagra drug product in US market in 1998. After 7 years of success, they entered into India market. The market dynamics in India were very different from that of the US. Viagra had to face competition from other low-priced generic versions of the drug. In US, they was the first mover and the competition was low at beginning enabled them to capture strong market share and play hard to retain it. In India, they entered late and they struggled to get the market share by setting a ‘me too’ environment. This made them to compete and no option given as they can’t boost sales due to advertisement restrictions in India.

2.6 Efficient Capital Markets

Share prices reflect to information available in random source. This price changes happen quick and correct over the information and this is the main factor made it to be efficient. Many investors in the market are profit driven and they eagerly looks for profit and the information that they receive would result to their activity of selling or buying the shares. There are several advantages from this efficient capital market for the firm. First the price is right as it has reflected on the public information. Second are the earning manipulations through accounting changes do not reflect on the share prices. Therefore the share price can be used to evaluate a firm's value. When good decisions were made, good information will reach the public and price increases. The other way around, when bad decision was made, the price will decrease. In this game, increasing shareholder's wealth is fully achievable when the firm takes good decision continuously. This obviously a dirty playground for some companies which attempt to increase share price with fake statement to gain profit. The WorldCom case had surprised everyone on to what extend fake statements can cause. WorldCom's accounting fraud poses a serious question for telecommunications regulators (Gregory Sidak, 2002). On September 26, 2002, the former controller of WorldCom pled guilty to criminal fraud in connection with the company's accounting scandal and bankruptcy (Wall St. J., 2002).

2.7 The Agency Problem

This problem occurs when the shareholder has different opinion with the management team. This is because the management team will work for their own benefit such as to earn salary and earn other benefits allocated to them. This sometimes misleads the firm whereas the management might decide to spend a lot of their benefits which does not bring wealth to the shareholder. This can be simplified with the word of 'conflict of interest' of the both parties. J. H. Hall (1998) had written in his research study over companies listed in Johannesburg Stock Exchange facing this agency problem and concrete facts. The top 3 reasons he highlighted was; excessive levels of management remuneration; shirking; and the appropriation of corporate resources in the form of perquisites. A closer study to these problems will lead to the proper solution.

2.8 Taxes Bias Business Decision

All cash income is subject to government taxation. The income after-tax can be reinvested. Therefore, it is important to carefully study the tax advantage or tax exclusions before investing in any project. This strongly depends to the country's taxation rules. And for the firm, any tax exclusion on certain type of project would lead to high invest over the project. The investor or the finance manager themselves should look into this opportunity to benefit the firm best. On the other hand, if taxable income rate is high for certain type of project, the firm will try to avoid this project. This is the reason why government tax is high on IT industry and very lo on agriculture industry. The intention of government is to pull the investors toward agriculture industry which will indirectly help to develop rural area assuming that these areas will be used for agriculture activity. In Malaysia, IJM Corporation Berhad is good example as the firm was founded for land, building and development activity. They focus in real estate. In 2003, the company brought IJM Plantations Berhad to Bursa Saham Malaysia listing board and they go extra active in the plantation and agriculture industry. This is due to government's encouragement through tax exclusion for certain agri-projects.

2.9 All Risk is Not Equal, Diversification of Risk

Investing is always married with risk. To reduce the risk, diversification is the best method. This is because not all the firm's resources sourced into one project. The resources will be allocated in reason ways among the high risk and low risk projects. Competition exist in all market, therefore diversification can help you strength the brand and kick out more competitors when you enter the field more diversified. When a firm does not thing and if anything goes wrong in that industry, it will impact the firm and it is a day-light disaster which you can see it more visible but it would be too late to save the firm. To avoid this disaster, the firm can invest in several projects. For example, spend 30% on project A which is very risky and spend 70% on project B which is low risk. If project A failed, the return of investment from project B will able to stabilize the failure. Another way, we could spend 20% on each of 5 different project which has the same risk amount. The example is the IOI Corporation Berhad who actually spends on real estate as well as agriculture projects. Johnson & Johnson's is most famous brand for product line diversification. They offer various products from toiletries and to drugs and medicines.

"The company reported a decline in revenue for two products: $100 million less of Procrit and almost another $50 million less of medical device Cypher. Yet it still grew total revenue by 9%. But now comes the power of diversity. Drops in sales in some areas, while not fortuitous, can be offset by growth in other areas." - Brian Orelli (2006), article titled J&J's Lesson to Investors: Diversify!

2.10 Ethical Behavior is Doing the Right Thing

Ethic is a compulsory in finance although some unethical are not against the law or regulation. It is important for the finance manager to decide ethically and do something that is viewed right by many people. Do not attempt to enter any extend on something that is viewed as unethical or wrong. The law exists only to impose the rules and regulation, while the ethics is a subject that still open to debate on. Any decision can be ethically debated as right or wrong. But debating on the act is not really going to benefit much. On the other hand, taking an unethical decision could lead to big lose whereas it is hard to recover from the dilemma when your firm marked as unethical. In Malaysia, a firm called “Cosmopac Sdn Bhd” who in real-estate development industry conducted an exhibition in Singapore to promote their “Cosmo City” housing area project. The potential buyers are welcomed to place the booking and pay the related fees. A Singaporean had signed the booking and paid respectively. But later he found that the firm will not do any paper work whereas he needs to hire a lawyer and do the purchase agreement paper works. This is unethical as he was not told about this before his signed the booking. When this case brought to court, the judgment was not in favor as the law says he had signed the booking and there is no clause mentioning the firm will do the paper work. What the firm did was lawfully right. But in ethic meter, they failed, they went out unethical and unprofessional.

3.0 CONCLUSION

Financial management principles are fundamental to all organization to ensure a good decision making. This decision making will result back to the price's share price which representing the firm's value. The firm could maximize shareholder's wealth through taking good decision all the time regardless on expenditure or investment. The firm can't run away neither from current competition or future competition but they must be unique and has competitive advantages to compete the right way. Meanwhile, government tax incentives would also play indirect part in the decision making and the question ethical activities always arises. Being ethical will benefit the firm and promises a long-run business over the time period.

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