International Business Management 10 (7): 1337-1345, 2016
ISSN: 1993-5250
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An Overview on Various Ways of Financing and Their Effects on Economic Dimensions of Enterprises

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Abstract: Financing refers to art and science of cash flow management. Financing is targeted in investment, profitability, reduction of risk and meeting socioeconomic needs of an enterprise. In financing projects and plans, domestic resources of firms enjoy particular priorities for favorable allocation of resources to the investors due to being cheaper, having less risk and cost. Directors of enterprise should take advantage of the amount of existing cash flow and short-term investments which are required for continuity of current operations of firm. The existing cash flow in the enterprise often does not suffice to develop operating activities. As a result, directors are forced to propose the suggestion for increasing capital, lack of dividend, creating reserves and paying loan by the shareholders to the general assembly of the firm, mentioned as the cheapest financing ways. In general, it can say that developing financing can result in economic growth in case it enables to pave the way for optimal allocation of resources and increase of efficiency in capital. In other words, major channel for influence and transfer of positive effects from financial development to economic growth is through increase in capital efficiency compared to the increase in investment volume. In this way it can expect that although financial development decreases investment volume in a community but increases capital efficiency, resulting in increase in economic growth. Conversely, if financial development results in increase in investment volume in a country but fails to increase capital efficiency it will fail to influence economic growth which this should have been drawn into attention by the policymakers in formulation of macroeconomic policies which have targeted in financial development.

Key words: Financing, financial management, enterprises, economic development, respirces

INTRODUCTION

The ability and success of any country at global economy depends on success of organizations, depending on creation, innovation, efficiency and particularly financial management. In other words, economic development and growth of any country are under direct influence of development in organizations and their financial management. The countries such as Japan, Britain and Germany without abundant resources have enabled to experience an influential economic growth in a long term using power of knowledge and efficient financial management in organizing and allocating resources.

THEORETICAL BACKGROUND OF RESEARCH

The definition for financing: Financing refers to art and science of cash flow management. Financing is targeted in investment, profitability, reduction of risk and meeting socio-economic needs of an enterprise. In financing projects and plans, domestic resources of firms enjoy particular priorities for favorable allocation of resources to the investors due to being cheaper, having less risk and cost (Grinblatt and Titman, 1989). The profit from business in enterprise has been assumed as a major factor for continuity of activity in enterprise and found as a major resource for financing operating activities of enterprise in future. Financing favorable financial resources has been mentioned as the major concern of enterprises throughout the world. Any activity requires financial resources, thus, financial resources have been symbolized to lifeblood of large and small enterprises. Indeed, profitability is the main purpose of any economic activity which profitability is not possible without financial resources (Paramasivan and Subramanian, 2008).

THE DEFINITION FOR CAPITAL STRUCTURE AND FACTORS AFFECTING IT

According to the research entitled "An Overview on Effect of Type of Industry, Size, Business Risk and Operating Leverage Degree of the Firms Listed in Tehran

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Stock Exchange on the Extent of Using Financial Leverage" by Jahankhani and Yazdani, capital structure has been mentioned as an integration of short-term debts, long-term debts and shareholders' equity through which the assets of firm have been financed. In other words, capital structure is called to an integration of debts and shareholders' equity, including items in balance sheet (left side). With regard to the studies on capital structure, the factors below can be called as the most effective factors in financing:

- Amount of assets and liquidity status of firms
- Policies and opportunities for economic development and growth in enterprises and level of their production
- Rate of interest rate
- Type of industry, size of enterprise and ownership structure
- The strategy for presence or lack of presence in domestic or world competitive markets
- Economic and political conditions (recession, crisis on enterprise, industry or market)
- Acceptable level of operating, commercial and financial risks and expected return
- Amount of tax deposits due to interest rate and tax breaks for development plans
- Amount of recession, economic crisis or development governing enterprise, industry or market
- Attention to capital structure with an outlook to strategic planning (strengths, weaknesses, opportunities and threats

CLASSIFICATION OF A VARIETY OF FINANCIAL RESOURCES

Kordestani and Najafi Omran in a research entitled "an overview on effect of financing ways on future stock return" have stated about a variety of financing resources that firms face two domestic and foreign financing resources in financing decisions. Major duties of managers include maximization of shareholders' wealth. Effect of financing methods and how to use the benefits from them on future stock return is of great importance. Further, financing can affect earnings per share, financial risk and percent of shareholders' ownership.

Abrazi *et al.* (2007) in a research entitled "Overview and Analysis of Financing Methods in Firms Listed in Tehran Stock Exchange" have classified a variety of financial resources to two financial resources with and without cost.

Kaplan and Zingales have classified the firms to two capital and leverage groups based on type of financing methods for domestic and foreign financial resources. A group tends to use capital of shareholders, called capital firms. Another group is called to the firms which tend to create debt to finance financial resources, called leverage firms.

Jahankhani and Kanani Amiri have classified financing methods to domestic and foreign methods. Private and public enterprises use an integration of these two methods to do their operating activities.

DOMESTIC FINANCING RESOURCES

In financing projects and plans, domestic resources of firms enjoy particular priorities for favorable allocation of resources to the investors due to being cheaper, having less risk and cost. Directors of enterprise should take advantage of the amount of existing cash flow and short-term investments which are required for continuity of current operations of firm. The existing cash flow in the enterprise often does not suffice to develop operating activities. As a result, directors are forced to propose the suggestion for increasing capital, lack of dividend, creating reserves and paying loan by the shareholders to the general assembly of the firm, mentioned as the cheapest financing ways. This financing method has been regarded as the best method to sustain on activity and profitability especially for new established firms, remained unknown in the community and facedmajor challenges inlending facilities. A variety of domestic financing methods include capital and stock, retained earnings, dividends payable, legal and contingency reserves, sales of asset, loan received from partners and current account of partners which are used to continue operating activities with the least capital cost. In general, managers and shareholders who have accomplished their activity recently in enterprises face the problem to take loan for which they prefer domestic financing to other financing methods due to their low cost feature. Yet, lack of dividend for long years for the investors who have invested in the enterprise to make profitability will not be just followed by their dissatisfaction but also will reduce their motivation to maintain capital in the enterprise. Therefore, managers in a long term tend to financing out of enterprise:

- Capital and stock
- Retained earnings
- Dividends payable

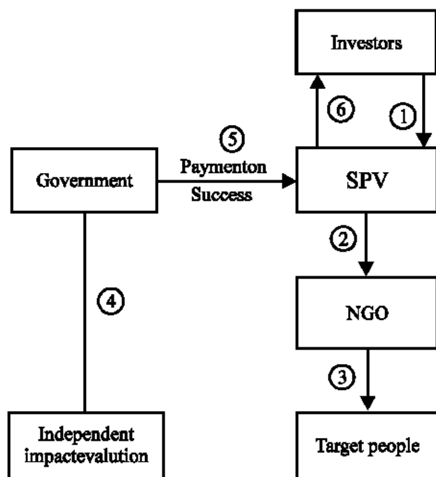

Fig. 1: Co-finacing practices; ①: investors provide capital to SIB SPV; ②: SIB SPV provide working capital to NGOs to implement program; ③: NGOs implement program; ④: independent evaluation verify impact; ⑤: government pays principal plus interest only if impact achieved and ⑥: investors get paid

- Legal and contingency reserves
- Sales of asset
- Loan received from partners
- Current account of partners (Fig. 1)

FOREIGN FINANCING

In most of important projects of enterprises, the possibility for domestic financing has not existed due to different reasons, under which the enterprises tend to foreign financing to provide investment cash flow and working capital cash flow as well as trust on further sale of goods. Some monetary policies of Central Bank include high volume of required investment, high risk of project in terms of political and economic issues, presence in the world markets, trust on sale of good in other countries, lack of sufficient state funds to finance projects or plans, financial limitation of domestic banks to finance projects or plans, financial participation of other countries for financing, reduction of investment cost and risk, access to advanced technology, mass production and reduction of cost price and access to the world markets. (Boodhoo, 2009).

VARIOUS FOREIGN FINANCING METHODS

Some of the most important methods for foreign financing include:

- Finance
- Refinance
- Credit guarantee
- Purchase credit
- International loans
- Mutual trade
- Bonds
- Borrowing from domestic banks (Islamic contracts)
- Accounts payable
- Prepayment
- Off-balance-sheet financing
- Receiving grants from government
- New models of financing
- Modern financing models

As mentioned, a substantial percent of municipal revenues are obtained through the building permit issuance which will swing in periods of recession and boom.

Municipalities meet a part of their revenue need through local taxes, revenue transfers from the central government and other revenue sources. But these revenue sources cannot meet all the investment and civil needs of municipalities. Therefore, finding a stable revenue source to finance urban infrastructure projects is of great importance. In this regards, it seems essential the municipalities turn to private sector in financial markets and partnerships to mobilize financial resources (Sharma, 2013). In all the theories and models of economic growth, capital has been introduced as the driving force for economic development and growth within cities, thus, adoption of suitable implications to acquire sufficient capital has been regarded as the most important aim of urban management so as to finance financial resources of economic patterns. Such thing and insufficient stable revenue resources especially in megacities have caused acquisition of domestic capitals inevitable. Logic of private partnership has lied on supply of local public services, improvement of efficiency and effectiveness of services. Further, municipalities have preferred private sector in some cases because they are not allowed to borrow from capital market or they are reluctant to do this. Major advantage of public-private partnership lies on this fact that the municipalities get rid of financial charges for future capital costs and find this possibility to develop facilities without any debt to the municipality. Facilities and follow-up programs by private sector have reduced municipal operating expenditures and enabled the municipality to gain more revenue. The reason for increasing development in use of investment by private sector's partnership lies on this fact that both economic researchers and urban managers perceive positive

outcomes and advantages from the mentioned investment. advantages associated to suitable implementation of public-private partnership include reduction of costs and better allocation of risks use of private sector's capital and creation and representation of new technologies to reduce executive costs of projects, transfer of technology for the firm to domestic forces, fast fulfillment of services and activities in public sectors (Bjerre, 2002). On the other hand in this project, since the private partner undertakes to exploit from the project after setting it all the expenditures associated to maintenance will be on his shoulder. Therefore, during project construction, the private partner will make attempt to improve quality of construction so as to save the future expenditures for maintenance. With regard to international experiences about the clear and precise communication structures and prediction and analysis of different economic, social, political and technical risks of these projects such projects will enable to follow increase in injection of private sector's capital to different infrastructural projects, having an increase in quality of investment in infrastructural projects. In this regards, it seems that Iran cities especially megacities can use this method in developing and developed countries and use various existing experiences in doing different urban projects especially in public transport sector including revitalization of worn out fabrics, expansion of information technology infrastructures, creation of leisure and recreational space, pedestrians, urban highways and such things. Yet with regard to implementation of a successful public-private partnership, analysis of outcomes and creation of legal and social infrastructures are required. One of the reasons that can be mentioned to reduce cost of these projects lies on high sensitivity of private sector in investment projects so that an effort for reducing the cost price has been mentioned as one of the most essential basis for increasing profitability in all the investments. Yet there is a key difference between bid (partnership by private sector in building a civil project and delivering it to the public sector) and participatory(partnership between private and public sector in financing, building, exploiting and gaining revenue through setting project) projects. Despite, this fact that private sector has numerous motivation to reduce costs in bid projects but under such conditions, reduction of costs in construction and completion of project might be followed by severe reduction in quality of project and increase in maintenance costs of project in future. Indeed in bid projects, since the private contractor received the amount of his contract from the employer at public sector after ending the project he will have less sensitivity to quality of project and future maintenance costs (Rahmani, 2004). According to an in-depth research by Department of Civil and Environmental Engineeringis part of the University of Melbourne's Faculty of Engineering and its results which have been published in December 2008, most of civil projects in Australia which have been conducted in form of participatory investment by public and private sectors have lower average cost than the similar projects which have been conducted in a traditional way without partnership by the private sector or with partnership by private sector in the bid about project construction process. The participatory projects under study in the present research have been in the context of civil infrastructures, transport, recycling water, expansion of information technology, supply of water and energy, estimated that 28% in cost price of these projects has been saved in the participatory investment with the private sector. The interesting point estimated in the present research implies that the cost price of the participatory projects with private sector is lower than the bid projects to a large extent. Further with regard to the research report by Construction Industry Institute after reviewing 351 civil projects pertaining to the transport sector in United States during 1992-1997 it has been estimated that the projects which have been implemented by private and public sector partnership have been mentioned with the construction period for 33% lower than the construction period in similar projects conducted via bid method (partnership by private sector in building project) (Rahimian, 2004). Modern financing strategies in Iran have been being used in some megacities in Iran which municipality of Tehran has been pioneer in this context. Finance and Investment Committee of Tehran Municipality (2009) has proposed and issued a research project entitled "Design of the Pattern for Finance Services in Projects of Tehran City via the Approach to Use Bank, Insurance and Exchange Services" and devolved it upon the technology study center of Sharif University of Technology. This project has been targeted in examining and suggesting suitable items for financing urban projects and assisting for improving financial knowledge of Tehran municipality. In general in this research project, theoretical and field studies have been proposed at four areas including review of a variety of models and entities for financing and the theoretical background associated to financing, review of financing and partnership structures and processes in Tehran municipality, review and characterization of a variety of projects and missions of municipality and ultimately legal and technical feasibility assessment of patterns, instruments and entities associated to financing urban projects (Azar and Momeny, 2001).

It seems that a particular outlook to modern financing patterns such as public-private sector partnership can assist the government and public entities especially municipalities in completion of mentioned projects regarding unfinished infrastructural and civil projects of country which have occurred due to different reasons such as change of concerned authorities and managers, shortage of budget, change of plan priorities of authorities, etc. The approach to partnership between local governments, municipalities and private sector in construction and exploitation from different municipal projects can result in reduction of construction period, cost price and improvement in quality of civil projects of cities (Abor, 2005).

DEVELOPMENT

Growth and progress at any country requires having development at different social, economic and environmental areas. These developments are relied on each other that any of them can be an infrastructure for another one. In this study we examine the methods and areas for economic growth and development and how to manage them (Fig. 2 and 3).

Formulation of strategy "financial resources and economic growth": In formulation of strategy, vision and mission process of organization is determined. The factors which threaten the organization or create the opportunities in external environment will be detected. Further, weaknesses and strengths of organization will be detected and long-term goals and different strategies to achieve goals will be specified. Corporate financial strategy has been mentioned as one of the most important strategic areas in economic enterprises. Financial strategy must be formulated based on general needs of firm and competitive strategies. Through formulation of financial strategy, the directory of organization will enable to give response to the questions below:

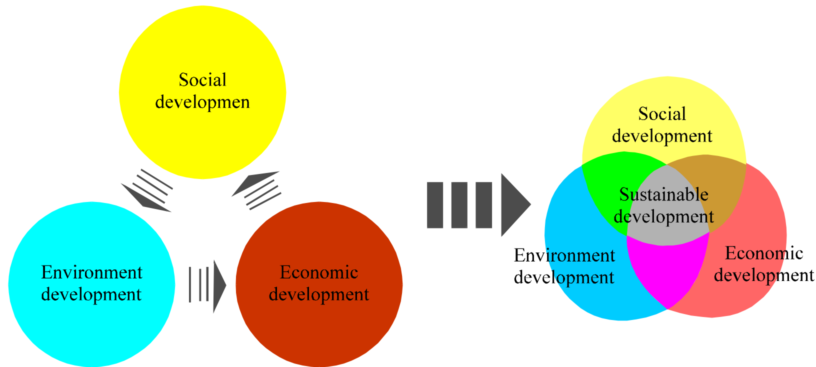

Fig. 2: Three dimensional development areas

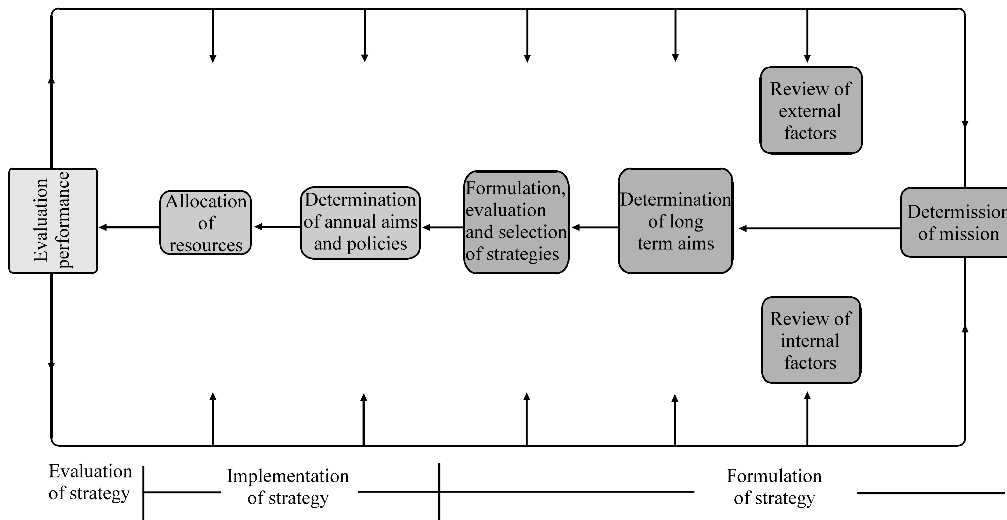

Fig. 3: Comprehensive strategic management model

- How much we need asset?
- Which methods must be considered to finance financial resources in an optimum way?
- How much of the resources created in the organization must be divided and how much of them must be reinvested?
- Whether the new securities must be released?

The stages below assist directory of organization as the processor of financial information in formulation of financial strategy:

- Detection of weaknesses and strengths of organization in the current status and determination of stages of organization's life cycle (introduction, growth, maturity and decline) and ultimately formulation of SWOT matrix
- Evaluation of optimal indices of industry
- Formulation of target indices based on above paragraphs as the long-term financial targets of the enterprise
- Providing future financial statements with the assumption under realization of targeted financial indices
- Formulation of long-term budget based on determined targets
- Estimation of the expected value of shareholders after realization of targets

In general, the framework for formulation of the proposed strategy is shown in Fig. 4.

ROLE OF FINANCIAL MANAGEMENT IN DEVELOPMENT OF CAPITAL MARKET

Financial management undertakes to maximize wealth of shareholders in compliance with social responsibilities of enterprise. This comes to realize through efficient management of short-term and long-term cash flows in any enterprise. With regard to globalization process, the financial experts should be familiar with global financial systems, investment strategies and advanced financial instruments in order that the economic enterprises enable to stabilize their financial position in today's turbulent world. The field of financial management meets this need. The ones graduated from this financial field should enable to take more effective steps in resolving economic problems of economic enterprises through learning modern theories of financial management and their application. In addition to the ability for analysis and active involvement in financial markets, financial management graduates can evaluate financial status of firms and institutions and play a major role in making effective financial decisions in the organizations. With retrospect to curriculum of this field in the universities throughout the country which include theoretical discussion on financial management at different areas such as investment, banking, insurance, risk management, financial engineering, financing financial credits in banks and evaluation of projects, the market expects to witness reasonable behaviors by increasing number of the graduates and financial practitioners at market. Despite presence of the previous number of these graduates in financial and monetary markets in recent years they have enabled to express their abilities at market. With regard to above factors it can know duties or roles of management in financing and investment, accounting and control, prediction and planning and pricing the products (Cote and Latham, 1999).

THE MOST IMPORTANT STRATEGIES OF FINANCIAL MANAGERS IN PROCESS OF ECONOMIC DEVELOPMENT

Securitization of assets in the financial system by providing the possibility to achieve optimal investment plan through reducing information and transaction costs can come effective in stimulation, stabilization and continuity of economic growth. With regard to studying some ratios of activity size and efficiency at banking sector and stock market in Iran and comparing them with experiences of rest of countries it can perceive that major feature of Iran's financial system lies on underdevelopment with dominance of banking sector, causing efficient improvement in banking sector and development of financial markets as well as intensification of economic growth. Review of the indices pertaining to performance of banking sector indicates poor stability and health of banks together with insufficient function and quality of assets. Under such conditions, the financing strategy representing transform to securitization at different dimensions can assist for efficient improvement in banking sector and development of financial markets, resulting in economic growth of country. It can mention the benefits of this method for financial entities as reduction in cost of financing funds, improvement in structure of balance sheet, improvement of liquidity and asset-debt management quality and more efficient risk

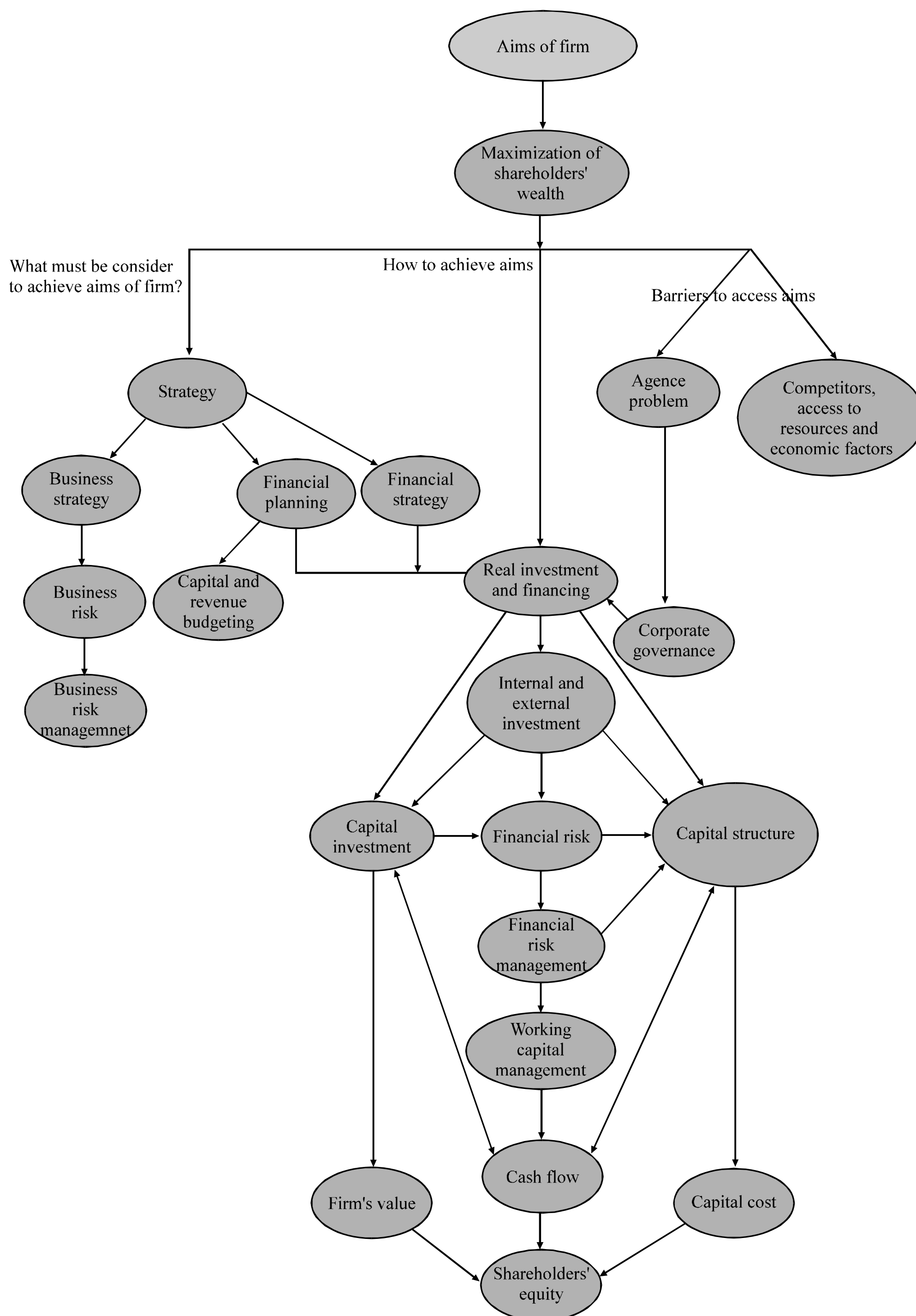

Fig. 4: Pyshnhayd framework for strategy formulatiom

management and mention that a large part of facilities granted to Iran's banking network have essential features for transform to securitization for which necessary infrastructure at areas of design, organization, generalization, constant improvement of standards, establishment of stable financial infrastructures and favorable market conditions must be considered to achieve this aim.

	Perspective	Merits of SIPF
Investor	• Low default risk • Liquidity • Profitability	• Government sponsor • Basily tradable in secondarymarket • Impact yield and tax benefits
Government	• Socio-economic impacts • Environmental imtacts • Sufficient financing	• Improve public service by taking advantage of private sector's effectiveness • Add special impact factors such as minority employment • Leverage by paying interests only for a long term
User	• Availabilit • Reliability • Security	• Receive better infrastructure service • Taxpayer do not pay inefficiency

Fig. 5: Multiple-win solution

REMOVAL OR REDUCTION OF UNDERGROUND ECONOMY AND MONEY LAUNDERING

As known, underdevelopment of financial entities raises imbalance in financial markets and expansion of activities in underground financial entities. According to an empirical observation, the countries which enjoy higher financial development have lower volume of economy raises illegal money at the first stage such that the illegal money enters into official financial entities through financial documentation and unorganized institutions, paving the way for intensification of money laundering with financial mix. State monopoly, competition removal, informal financial institutions have been mentioned as the conditions to make money illegally and smuggling, tax evasion, bribery and embezzlement, mentioned that the illegal money is made through financial documentation and the methods such as cash recovery of illegal export, credit recovery of deposit fund, Smurfing (a small deposit which transforms to large deposits). Financial mixis made through two layering and integration methods, which this is fulfilled through financial brokers, front companies, free economic zones and coastal banks (Fig. 5)

POLICY RECOMMENDATIONS FOR THE PROPER MANAGEMENT OF FINANCE

Working capital has been regarded as one of the major issues in supply chain management from financial perspective such that if it is managed properly there will be huge benefits for the organization. More specifically, management of working capital and policies made at this area is of great importance in the smaller size organization in which assets and debts develop their capital because such policies manage the firm's financial interactions with suppliers and purchasers in supply chain (Williams and Heins, 1985). Numerous factors such as cash flow management, risk control instruments, debt ratio, operating cash flow and so forth affect working capital in the organization such that if they are detected properly by the organizations and used they can be considered beneficial for improving performance of working capital within organization. Management of working capital itself and policies of working capital within organization can affect financial performance of the organization, paving the way for increase in profitability of organization and rise of optimal liquidity status. With regard to what mentioned above, policy recommendations mentioned in this study are proposed in two organizational and governmental sectors. The policy recommendations for the organizations are as follows.

The organizations should detect the factors affecting working capital and working capital policies within the organization and cause improvement in performance of working capital within organization through attention to these factors. To acquire management of optimal working capital, the organizations should maintain their liquidity cycle in an optimum level by proper management of supply chain of purchasers which includes receivables collection period and inventory maintenance period (Raie and Said, 2004). Despite general impression that the delay in payment of accounts payable has been known as a positive step to improve the performance and profitability, the firms should maintain their accounts payable period to an optimum level so as to achieve profitability and use suitable credit policies for their customers and suppliers. The firms are required to follow the predefined policies among aggressive, balanced and conservative policies through factors affecting working capital policies. The firms should control receivables collection period and inventory maintenance period as well as liquidity cycle through the risk control instruments so as to achieve positive outcomes on indices of financial performance for the firm.

OVERVIEW OF THE RELATIONSHIP BETWEEN ECONOMIC GROWTH AND DEVELOPMENT

To examine the relationship between economic growth and development, the indices below must be considered: the indicator measuring the financial sector, business allocation of resources, productivity of banking system and credit to the private sector. As a result, the financial sector is much larger in Southeast Asian countries with higher economic growth than oil countries. In general, concerning four selected indices there is a poorer correlation between economic growth and financial development in oil countries which poorer correlation between physical capital formation, capital productivity and financial development in oil countries indicates that

the poor relationship between economic growth and financial development in oil countries is due to the poor capital accumulation and return on investment. In general, it can say that developing financing can result in economic growth in case it enables to pave the way for optimal allocation of resources and increase of efficiency in capital. In other words, major channel for influence and transfer of positive effects from financial development to economic growth is through increase in capital efficiency compared to the increase in investment volume. In this way, it can expect that although financial development decreases investment volume in a community but increases capital efficiency, resulting in increase in economic growth. Conversely if financial development results in increase in investment volume in a country but fails to increase capital efficiency, it will fail to influence economic growth which this should have been drawn into attention by the policymakers in formulation of macroeconomic policies which have targeted in financial development. This can come to realize by a financial manager with high efficiency.

CONCLUSION

Financing favorable financial resources is a major concern for economic enterprises across the world. Any activity requires for financial resources, thus financial resources have been similized to lifeblood of large and small enterprises. Indeed, profitability is the main purpose of any economic activity which profitability is not possible without financial resources. The most important factors affecting financing include amount of assets, liquidity status of firms, recession rate, crisis or economic boom governing economic enterprise, industry or maker, attention to capital structure without an outlook to strategic planning. In general, it can say that developing financing can result in economic growth in case it enables to pave the way for optimal allocation of resources and increase of efficiency in capital. In other words, major channel for influence and transfer of positive effects from financial development to economic growth is through increase in capital efficiency compared to the increase in investment volume. In this way, it can expect that although financial development decreases investment volume in a community but increases capital efficiency, resulting in increase in economic growth. Conversely if financial development results in increase in investment volume in a country but fails to increase capital efficiency it will fail to influence economic growth which this should have been drawn into attention by the policymakers in formulation of macroeconomic policies which have targeted in financial development. The organizations should detect factors affecting working capital and working capital policies within organization and raise improvement in working capital performance within organization through sufficient attention to these factors. To acquire management of optimal working capital, the organizations should maintain their liquidity cycle in an optimum level by proper management of supply chain of purchasers which includes receivables collection period and inventory maintenance period. despitegeneral impression that the delay in payment of accounts payable has been known as a positive step to improve the performance and profitability, the firms should maintain their accounts payable period to an optimum level so as to achieve profitability and use suitable credit policies for their customers and suppliers. The firms are required to follow the predefined policies among aggressive, balanced and conservative policies through factors affecting working capital policies. The firms should control receivables collection period and inventory maintenance period as well as liquidity cycle through the risk control instruments so as to achieve positive outcomes on indices of financial performance for the firm.

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