

# Article review on fundamental concepts of corporate finance

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A survey on America's best companies in the book *In Search for Excellence* identified the best managed and also the "unexcellent" companies. The survey came up with two results that were striking. One, there was evident reversion in the mean whereby the growth and lucrativeness of the best companies did slow down after long time periods. Secondly, the "unexcellent" companies outperformed the S&P 500 by over 12%. In the 1988- 1992 period, there was a domination by reversion in the price/earnings and price to book ratios (Clayman, 1994). Large capitalization stocks vividly outdid the smaller capitalization stocks. There was also an expansion in the valuation ratios. For instance, the price-to-book ratio expanded by 50% in the S&P 500. The current studies make use of similar financial characteristics as the study that was originally done only used data updated in the past period. The good companies in the period 1981- 1986 grew faster and were far much profitable compared to the poor companies. The reversion to the mean phenomenon implies that properties of group members converge to the average value of the group as a whole. Its application is in instances that economic forces result in a drive to an equilibrium. The price- to- book- ratio is a viable discriminator between the value stocks and company growth. It also is a good tool for acquiring cheap stocks. Using the price-to-book ratio alone, however, produced fewer results than using the six financial characteristics. That is because the 1982-1992 period was more favorable to growth than to value. Also, despite the fact that the P/B ratio fell between the two periods for the good companies, a quicker growth in the equity was an indicator that the performance of price was impaired (Ross, Westerfield, & Jordan, 2006). One variable approach, as

such, is not the best. In spite of the fact that good companies do not make good investments, there is a reward for them in the market for their reasonable multiple sales.

## **References**

Clayman, M. (1994). Excellence Revisited. *Financial Analysts Journal*, 50(3), 61-65.

Ross, S., Westerfield, R., & Jordan, B. (2006). *Fundamentals of Corporate Finance* (7th ed.).

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