

650 questions 1 and 2

Finance



Ethics and Firm's Goals. Because a corporation usually has most of the legal advantages of a person and is considered to be "citizen of its of incorporation", quoting the textbook, it stands to reason that the firm would also be held to the same standards when it comes to illegal activity. The United States Sentencing Commission started establishing goals for corporation sentencing in the late 1980's. Enron is a perfect example of this in that CEO Jeff Skilling, Kenneth Lay, and CFO Andrew Fastow were also prosecuted for chiefly hiding the firm's financial troubles from the shareholders, among other things (Goodwyn). So no, avoiding unethical or illegal behavior had better not be in conflict with the goal of the firm unless its executives wish to find themselves facing prosecution. Yet Lockheed found itself in hot water many years with the US Government for giving bribes to foreign officials, even though it was accepted practice in the host countries.

The very nature of a corporation develops an agency relationship between the stockholders and management. An article in the Yale Law School Repository shows the problem develops when the upper management's ideas of running the company begins to conflict with the wants of its real owners, the shareholders, whose main goal is making money. It specifically mentions such things as country club membership and private use of the corporate jet. Unless those perks are contracted and part of the executives' bonuses, such personal joys would be illegal and a definite conflict of interest (Macey).

Cash Flow

East Coast Yachts has a very complicated cash flow. If it costs \$435 million to have \$617 million in sales of its boats, that would mean each quarter the

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company would need in excess of \$100 million just to continue its manufacturing process. How they have been managing thus far and still continue to pay almost \$18 million in dividends in 2008 is amazing. All it would take is one market dip for the company to be headed for financial trouble. However it is true that the average luxury sea craft buyer has little concern for economic downturns, as the sales figures for super yachts have shown to have grown astronomically during one of the worst periods of recession since the Great Depression (Boat).

It seems that East Coast has grown considerably, in that assets increased \$40 million between 2009 and 2010. With a net \$17.8 million growth in debt in the current year, the company raised much needed capital. Ms Warren has admitted that poor planning has led to a volatile situation. Yet her expansion plans are very much evident, with a recent net purchase of \$53 million in fixed assets. But a look at the trends coming for the industry shows that one of the major economies with emerging purchasing power, China, is set to undergo explosive growth in the luxury yacht market (Fox). With cautious and extensive planning, Larissa should be able to expand her business with relative confidence.

References

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