Critical thinking 2

Finance

Managing Earnings: Ethical Considerations Managing Earnings: Ethical Considerations The implementation of strategies to achieve anorganisation’s set goals is always harder practical situation that it might appear theoretically. Mangers have always found themselves in a dilemma in determining the best moves for the organisation’s success, given the always changing business environment. The principal agent theory tempts to explain this situation, but fails to account for the fact that consequences of the managers decision do not only result from conflict of interest. Remarkably, managers get involved in literally unethical or rather dangerous operational decisions in an effort to save the firm in times of economic difficulties (Barton, Kirk, Reppenhagen, & Thayer, 2010). Managing earnings is a commonly used strategy that bears many controversies on moral grounds. As matter of fact, managers differ on whether the act is ethical or unethical and only used as the last resort.

Managing earnings barely refers to transferring earnings of one period and reporting them in a different period. For that reason, the actions results to nominal rather than real positive benefits. Remarkably, managers only use it lure a positive report as per the specified period. Therefore, managing of earnings is totally unethical as it manipulates the information that the reports provides. Managers understand this fact and thus consider manipulating earnings as only a short-term strategy with majority expecting an advanced long-term consequence.

Neither the law nor GAAPs find managing earnings as an inappropriate measure and thus the decision on whether to use it or not is solemnly made by the managers. Literally it happens that every manager has used any of the earning managing options at a time. Though manipulation of operation

expenses seems to a best measure, especially when used to reduce earnings, as argued by managers, all measures have one limitation in common. They favour the current report by hiding or misinterpreting crucial information necessary for mutual correlation of all stakeholders (Ketz, 2006). Worse though, these stakeholders are the victims of any misfortunes accruing from the manipulation process. I that perspective, manipulation become unethical as it serves the needs of the manager at the expense of other stakeholders. Though a perfect short term solution adjustable in the long-run, that maybe in line with organisations, the fact that managers are short lived in the organisation as compared to stakeholders, creates some sense of the dilemma addressed in the agency theory. It’s worth noting that the manager is an employee, subject to retirement or firing while key stakeholders such as shareholders and customers have a long term relationship with the organisation.

Managing earnings isn’t purely faulty but presumes some benefits too. The quality of financial reports determines the firm’s future operations, and maybe this maintains its legal viability. Managers report positive results from managing earnings though critics consider it as manipulating financial records. What lacks in the operation is strict regulation of the operations to minimise the negative impact (Gibson, 2012). As noted in the case study, manager’s act based on their reasoning, moreover, managers might find it hard to implement some short strategies that contradict long term achievements as it wounds trust and respect from employees. Therefore, managing earnings needs to be regulated on the basis of ethics and moral values.

In a nutshell, the ethical standing of managing earnings depends on how well

the long-term negative impacts are managed. Totally labelling it as victimless crime is misleading and thus since its usage is inevitable, managers ought to study the shortcomings of any method before using it.

References

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