Ethics considerations in financial management assignment

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Ethics Considerations in Financial Management Ethics assists individuals in deciding when an act is moral or immoral, right or wrong. Ethics can be grounded in natural law, religious tenets, parental and family influence, educational experiences, life experiences, and cultural and societal expectations. The days of when people were simply trusted to always do the right thing are over with ENRON and WorldCom and the devastation that followed in the business world you are now guilty until proven innocent.

Ethics are now written clearly out in agreements that are signed when people are newly hired and the employee is expected to follow those guidelines or face termination (Gitman, 2006). Ethics in financial management is actually two different things, societal and corporate. When talking about financial ethics, we are talking about two different types of considerations, which are quite different. First, we are talking about societal considerations, such as environmental concerns and balancing the interests of the corporation against those of stakeholders (Luft, 1997).

Second, we are talking about preventing conduct which is either a violation of law or is sufficiently close to the line of illegality that the corporation has determined not to take a risk of violation, particularly without careful consideration at senior levels (Luft, 1997). Numerous scandals in the late 1990s and early 2000s seemed to add credence to the criticism of business ethics. Corporate executives of WorldCom, a giant in the telecommunications field, admitted fraud and misrepresentation in financial statements.

WorldCom's former CEO went on trial for alleged crimes related to this accounting ethics scandal (Luft, 1997). A similar scandal engulfed Enron in the late 1990s and its former CEO, Ken Lay, also faced trial. Other notable ethical lapses were publicized involving ImClone, a biotechnological firm; Arthur Andersen, one of the largest and oldest public accounting firms; and HealthSouth, a large healthcare firm located in the southeast United States (Luft, 1997).

These companies eventually suffered public humiliation, huge financial losses, and in some cases, bankruptcy or dissolution. The ethical and legal problems resulted in some corporate officials going to prison, many employees losing their jobs, and thousands of stockholders losing some or all of their savings invested in the firms stock. When speaking about ethics issues of this type, the role of ethical principles is essentially to supplement and reinforce legal strictures.

In these highly competitive days, when corporations are under enormous pressure from shareholders to produce financial results, financial executives face substantial temptations to take measures which, for example, might make their corporation or division appear more profitable than it is. Most executives are strong enough to resist these temptations (Luft, 1997). Sadly though some are not and that is how ENRON and WorldCom happened. Ethical behavior in business is critical.

When business firms are charged with infractions, and when employees of those firms come under legal investigation, there is a concern raised about moral behavior in business. Hence, the level of mutual trust, which is the foundation of our free-market economy, is threatened. The Sarbanes-Oxley Act of 2002, also known as the Public Company Accounting Reform and

Investor Protection Act of 2002 and commonly called SOX or Sarbox; is a United States federal law enacted on July 30, 2002 in response to the corporate actions of ENRON and WorldCom among others(Gitman, 2006).

The legislation establishes new or enhanced standards for all U. S. public company boards, management, and public accounting firms. It does not apply to privately held companies. The Act contains 11 titles, or sections, ranging from additional Corporate Board responsibilities to criminal penalties, and requires the Securities and Exchange Commission (SEC) to implement rulings on requirements to comply with the new law. Debate continues over the perceived benefits and costs of SOX (Gitman, 2006).

Supporters contend that the legislation was necessary and has played a useful role in restoring public confidence in the nation’s capital markets by, among other things, strengthening corporate accounting controls. Opponents of the bill claim that it has reduced America’s international competitive edge against foreign financial service providers, claiming that SOX has introduced an overly complex and regulatory environment into U. S. financial markets.

The Act establishes a new quasi-public agency, the Public Company Accounting Oversight Board, or PCAOB, which is charged with overseeing, regulating, inspecting, and disciplining accounting firms in their roles as auditors of public companies (Gitman, 2006). The Act also covers issues such as auditor independence, corporate governance, internal control assessment, and enhanced financial disclosure. This act sets the rules corporations have to follow and if the rules are broken they are subject to fines, penalties and possible imprisonment (Gitman, 2006).

Time will tell is this solution will keep corporations on the straight and narrow. To exist in business your customers must trust that you have their best interests at heart and your main goal is for them to be happy with the corporation’s performance. Once that trust is broken lives are affected a thousand times over. The people who run these corporations must remember that they are dealing with peoples lives and well being and the government is hoping that with the SOX act they will not forget that and will treat their customers the way the themselves want to be treated.

References Gitman, Lawrence J. (2006). The Role and Environment of Managerial Finance. Principles of Managerial Finance, Brief Fourth Edition. Boston, MA: Pearson/Addison Wesley. Joan L Luft (1997). Fairness, Ethics and the Effect of Management Accounting on Transaction Costs. Journal of Management Accounting Research, 9, 199-216. Retrieved June 30, 2008, from Accounting & Tax with Standards database. (Document ID: 905990581).