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Helping Your Organization Grow

Management Goals and Financial Ethics, Part 1

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Part 1: Management Goals and Financial Ethics

Financial and Management Goals

As a small, but growing company, moving forward into looking for investors, Medi-Supply will want to have many short and long-term financial and management goals to help keep them on track. Let us begin with examination of the various financial goals. Starting out, Medi-Supply will have financial goals that revolve around just surviving and avoiding bankruptcy (TheFinCoach, 2012). As starting capital was undoubtedly small by comparison to the one, five, and ten-year plans, it can seem like all available profits above and beyond operating expenses (including payroll) are cycling back into the company and dividends for shareholders can seem small or non-existent, a subject which I will revisit. Additional financial goals include, actively trying to create sales and make a profit (TheFinCoach, 2012). A key way to accomplish this involves minimizing and cutting costs to achieve maximum potential for profit (TheFinCoach, 2012). This could be done by changing suppliers or electing to use lower cost or grade constituent components or supplies. Whichever particular method Medi-Supply managers choose, I would add one word of caution to ensure that in maximizing value, harm is not brought to stakeholders. Ethics and morality apply and Medi-Supply must keep in place certain checks and balances to ensure that quality of work and duty are not compromised in the name of enhancing monetization.

In actively seeking investors, Medi-Supply needs certain management goals in place. A great one is to keep a focus on capturing market share (TheFinCoach, 2012). At first glance this seems automatic, but it really isn't since most managers are focused so heavily on the bottom line, that lowering costs to maximize profit can seem like the go-to method. What makes the goal of capturing market share so revolutionary and worth stating, is in what it takes to accomplish this. To accomplish the goal of capturing market share, the firm must stay innovative, support and stand behind their products and services, and be generally well-liked by the public; all of which translates into elements of quality. Taking this a step further, a great goal can be found in maximizing shareholder and market value (Lumen Learning, 2021). Shareholders will like to make money but will also want to know they are financially investing in a product with a good reputation. Since we all know that a good reputation is easier to ruin than the prospects of improving a soiled reputation, keeping the focus on the aforestated will influence staffers to make the right choices when decisions need to be made. Finally, a great overall, and primary goal should be to maximize the current value per share of existing stock (TheFinCoach, 2012). This goal pulls together the essence of what has been discussed by way of financial and management goals. Essentially, to maximize value per share, the company must be consistently growing, adhering to ethical practices, and making good financial decisions consistently enough to translate into an enhanced bottom-line.

Unethical Practices in Financial Reporting Methods

In the preceding explanations of financial and management goals which Medi-Supply ought to adopt, there was a peripheral discussion about ethics. This is, in part, because unethical practices ultimately lead to a firm's demise, either from legal troubles or repulsion by shareholders, or customers, or both. An interesting area in which people often get tripped up is in handling critical, non-public information. Perhaps the best examples of this involve people with information that is not known by the public, which may have an impact on the price of a stock (Beers, 2018). When one acts on this information, the act is colloquially known as insider-trading and it is not only unethical, but it is illegal. Firms in general, and Medi-Supply specifically, ought to develop an internal process for reporting unethical activities. This is critical because if there is not an internal process in place, unethical managers may embrace unethical activities and dispel employees who stand a chance at getting in their way whilst supporting the employees committing wrongful acts, accentuating the problem. Actions can be taken on the individual level such as reporting dishonest acts and can be taken on the institutional level by taking steps to create barriers and boundaries that put less contradictory pressure on employees (Beers, 2018). This is particularly helpful because it effectively communicates the firm's stance against unethical behavior and helps employees more clearly understand boundaries.

Another unethical practice in financial reporting involves under-reporting or incorrectly reporting revenue (Rev-Ignition, 2021). This type of behavior has a two-fold effect. First, it can mislead investors and pose some serious ethical concerns. Second, it can lead to some serious legal troubles; as an aside, neither is good PR for the company nor is it for customers and shareholders. Certainly, in this instance, honesty is always the best policy and a decision should be made to never use estimates, but to always use factual numbers, even if it means requesting an extension of time from regulating authorities to enable Medi-Supply to provide factual reporting. This requirement, to pursue ethical financial reporting, pours over also into accurately showing liabilities within balance sheets and ensuring that financial figures are machine-computed to avoid presenting balance sheets which are, in fact, unbalanced (Rev-Ignition, 2021). Along these same lines is hiding reserves, which essentially consists of undervaluing assets to reduce a company's equity capital and/or annual profit for the purposes of lowering the company's tax burden (Ionos, 2020). Medi-Supply financial staff should be advised that these so-called hidden reserves are only hidden temporarily and they often come out sooner or later, such as when the undervalued asset is sold.

In addition to the aforestated suggestions for prevention of unethical practices in financial reporting, I present two final suggestions, to wit; the implementation of internal controls, and the compliance with the more stringent practices of publically traded companies. The first suggestion, implementation of internal controls, ensures employees that one department will have oversight of some actions of another. There are many manifestations of this practice, one such practice is to have a different person responsible for writing the checks as the one who signs them. Another is to have a different person responsible for accounts payable as the person who is responsible for accounts receivable. Lastly, I suggest that Medi-Supply begin now in implementing the more stringent practices of publically traded companies; a great example of this would be adoption and adherence to the principles of the Sarbanes-Oxley Act (TheFinCoach, 2012), to wit; management reviewing and signing all company financial statements, ensuring there are no false statements or material omissions, and producing an annual report with an assessment of the company's internal control structure along with detailed financial reports (TheFinCoach, 2012). These actions will help protect customers and shareholders and go a long way toward maintaining the company's ethics.

References

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