

Lehman brothers ethical reasoning

[Sociology](#), [Ethics](#)



Describe the situation at Lehman Brothers from an ethics perspective.

What's your opinion of what happened there? The ethical issue here was that Lehman's executives exploited loopholes in the accounting standards to manipulate their balance sheet in order to mislead the investing public. Using "Repo 105", Lehman was able to clear huge amount unprofitable assets off its balance sheet instead of selling at loss. Evidence pointed out that the chief executive, Richard Ruld, knew about the use of it but faked ignorance in defence.

Even the auditors from Ernst and Young knew about the use of the suspicious Repo 105 but chose to keep quiet. I believe that the prime motivation behind the act was to retain investors' confidence by preventing a plummet in stock price. Hence, the implication was that Lehman was projecting a false image of its strong financial position, meaning that its stock price was overvalued. Through falsified accounting reports, investors were tricked into believing that their investments were safe, incurring huge losses when Lehman defaulted. Investors lost faith.

The consequences were devastating as it created a systemic crisis of confidence in the banking industry as all other banks froze lending to reduce their exposure of Lehman's undesirable Repo 105. Lehman's employees suffered too as they lost their jobs overnight. Could anything be done differently at Lehman Brothers to prevent what happened? Explain. After extensive research, it was apparent that a written "Code of Ethics" was present at Lehman Brothers. However, for an ethics code to be effective, the tone at the top executives needs to be set right so that the entire organisation can feel connected to the firm's ethical values and beliefs.

The obvious failure we witness in Lehman's case was that the top management, led by Ruld (CEO) and Erin Callan (CFO), were guilty of unethical negligence and wrongdoing. Therefore, it is vital for the Shareholders to screen through their selection of the Board of Directors extremely stringently to ensure the appointment of the right leaders. As the top management was already corrupted, the Ethics Programs at Lehman had limited use in ensuring the upholding of the Ethics Code, as these top executives can wield their axe down on any whistleblowers that puts their power in jeopardy.

This was the exactly what happened at Lehman, when whistleblower Matthew Lee, was axed. Therefore, Lehman needs to ensure that ethical leaders are at helm for this control mechanism to work, so that the Ethics Code can be reinforced through compliance-based ethics programmes to serve as deterrence. Simultaneously, integrity-based ethics programmes must come into play to instill and influence an individual responsibility for upholding ethical behaviour, with compliance continuously playing the role of monitoring, to prevent any future reoccurrences.

On top of this, Lehman could have adopted the Moral Rights Approach to base their decision on whether their behaviour was ethical or unethical. Using this approach, they would not have committed fraudulent accounting, as it violates the fundamental rights that investors deserve from the use of their accounting report - which is to provide a faithful and accurate representation of the company for investors to evaluate investing decisions. Another preventive approach is the Fairness or Justice Approach to assist Lehman in weighing their ethical decision.

The top executives' decisions impact many groups of stakeholders, and the fraudulent acts only brought about harm to all stakeholders involved, as could be seen from the negative repercussions of the bank's default – shareholders losing money, employees losing jobs, other banks' losses due to lending to Lehman, public's loss of confidence and stock markets crashing. If they did go about reporting their losses honestly, perhaps their stock price and profitability will fall, but at least the negative impacts would be localised within the firm, instead of triggering a banking shockwave.

After all the public uproar over Enron and then the passage of the Sarbanes-Oxley Act to protect shareholders, why do you think we still continue to see these types of situation? Is it unreasonable to expect that businesses can and should act ethically? Analysing from the concept of Organisational Code of Ethics, it can be easily deduced that ethical failures from organisations usually stems from the individual ethics component. Unlike societal ethics and professional ethics which are based on established social norm and a certain set of standards, individual ethics is the only component that is not conformed to a certain enchmark. Every individual's ethics differ from one another as it is shaped from the influence of their upbringing. While honesty can be one's core value, it can also be the most neglected value of another. As seen from the case studies of Lehman and WorldCom, personal interest and greed of the top executives to remain in power motivated them to trample on ethics, resulting in their obstructionist approach. Managers must first understand that ethical decision making is dynamic and every element must be carefully weighed to prevent unethical issues.

In applying the five ethical notions, it can be argued in Lehman's case that manipulation brings about apparent utilitarianism for everyone (higher stock price for shareholders, more bonuses for employees, stronger creditors' faith and higher management's bonuses) in the short run. However, it is not justified for the stakeholders to be denied their fundamental rights of having accurate information of the bank, nor is it fair and justifiable that it brings about harm for all stakeholders in the long run when it went bust. It is very reasonable to expect businesses to act ethically.

This could possibly be achieved through a two pronged approach. The first, which aims to resolve unethical issues in the long run, requires the need for a stronger emphasis on education. Simple as it may sound, but the lack of ethical education is extremely glaring. In this profit driven world, where money speaks louder than anything else, there seems to be a shift towards higher reward and recognition for profits rather than ethical behaviour. Education serves as the most effective and fundamental way to resolve and prevent unethical issues altogether as it tackles the root of the problem to instill the right mindset.

The second, perhaps shorter term measure, deals with governance. To prevent the evil temptation of dishonesty, there needs to be much harsher consequences and deterrence, such that temptation will vanish upon thought of the possible sentences that potential manipulators will face. Currently, the punishments of fines and jail terms are simply not severe enough to deter off such seduction of greed. With a softer but more effective measure through education to correct mentalities in the long run, and a harsher deterrence factor in the short term, ethical behaviour can be definitely be achieved.