

# The ethics and impacts of lehman brothers bankruptcy

[Literature](#), [Russian Literature](#)



## **Introduction**

Lehman Brother remains as one of the largest financial bankruptcy case in the history of the US. Over the period of the Lehman Brothers' Bankruptcy, numerous individuals got laid by firms, and investors as well lost their capital. The Lehman Brother became unsuccessful in real estate investments market and failed to finance its operations effectually as a result of the 2008 financial disaster. This paper presents a literature review for Lehman Brothers' Bankruptcy by using five sources. Dumontaux, N. (2013). Contagion effects in the aftermath of Lehman's collapse evidence from the US financial services industry. Paris: Banque de France.

## **Effects of Lehman Brother's Bankruptcy**

At personal level, Lehman Brothers faced a lot of challenges in raising money so as to pay debts they owed the stakeholders. The bankruptcy came as a blow to the brothers and all the efforts of recovering the financial position of the financial firm was in vain for an average of 5 years. Also, beside the bankruptcy, the decisions of the potential investors and major stakeholders to move away to join other banks caused further reduction of financial stability of the bank thus stretching Lehman brothers' financial status. Trading partners such as Abu Dhabi Investment Authority turned back their back on Lehman Brothers when they needed financial aid so as to sustain their bank thus pushing it to the walls.

The Lehman Brothers' Bankruptcy roiled global financial markets for weeks given the size of the company and its status being the major financial player in the United States and internationally financial markets. Many parties

suffered from the Lehman Bankruptcy, for instance, global stock markets, corporate investors and individual as well as related businesses suffered from the financial disaster that was caused due to the collapse of the Lehman Brothers. Many people lost their jobs from the Lehman Brothers, other business that were depending on the bank for financial help suffered as well as the whole community felt the effects as the bank withdrew its support from community based programs.

### **The Lehman Brothers' Bankruptcy from an ethics perspective**

In the Lehman Brothers financial firm, the ethical issues that occurred was that the Lehman Brothers' executives exploited loopholes in the accounting standards to manipulate the financial statements so as to mislead the investing public. This was one way of acting against organization code of ethics and against the law thus their actions were not authentic. The fall of Lehman Brothers was not as a result of one ethical mishap but a series of them by different players in the company. For instance, Richard Fuld used "Repo 105", for the Lehman Brothers to clear large amount unprofitable assets off as balance sheet instead of selling at loss thus leading to the collapse of the financial firm. There was adequate evidence indicating that Richard faked the documents but due to ignorance, the executives did not follow up the issues. Even the auditors from Young and Ernst knew about the use of the suspicious Repo 105 but they choose to keep quite.

Therefore, its evidence that all those executives as well as financial auditors knew what was going on but they choose not to tell the authorities involved so as to take the necessary actions. They executives tried to maintain the

investors by lying to them about the financial position of the company thus acting against the organization code of ethics. According to Makin, V. (2013) both Ernst & Young failed in corporate responsibility reason being that a firm of certified public accountants, it is mandated to uphold industry ethics and oversee compliance with accounting standards but instead they violated the rules and standards of accounting.

### **Contribution of Lehman Brothers' culture to its Bankruptcy.**

The Lehman Brother culture was one of risk and reward. In year 2008 when the crisis occurred, executives had developed a culture of taking excessive risks that were of no benefits to the organization but only to themselves and being rewarded handsomely. This acted as a motivation factor to the employees to still from the company since no actions were being taken. The Lehman Brothers' employees knew that they could give risky ideas and policy and would be rewarded. According to (Robbins & Coulter, 2010) those employees who making questionable deals were hailed and treated and conquering heroes.

The Lehman Brothers had developed a culture whereby the executives mind had programed in that, as long as there were financial gain for either executive or staff member, then it was worth what the potential failure could be. This played a major role as it contributed to Lehman Brothers' Bankruptcy. The leaders were only worrying about their wellbeing instead of organizations' performance and its wellbeing thus leading bankruptcy. On the other hand, all those employees who questioned decisions and actions of the management board were either ignored or overruled. Additionally,

Lehman Brothers was afraid of changing their culture despite noticing the financial downfall. They continued using the same tactics, since the executives feared change thus continuous use of the same tactics that were leading to loss led to bankruptcy.

### **The role Lehman's executives played in the company's collapse**

This source describes the role that Lehman Brothers' Bankruptcy crisis. The executive team was playing the leadership roles for the business thus they were in control of all activities that were going on in Lehman Brothers' financial firm. However, the business management board exceeded its own internal risk limits and control and continuous bad calls by the executives led to the company's failure. According to Auletta, K. (2009), the executives were neither responsible nor ethical reason being that their made poor decisions nor only decisions that benefited them at individual levels without considering the welfare of the organization and to the society in large therefore causing to collapse of the Lehman Brothers.

The collapse of the Lehman Brothers was blamed on the management board members who allowed misleading as well as fraudulent manipulation of financial transactions and documents since they were looting money out of the company. The Lehman executives and the firm's auditor, were profoundly criticized for their actions that led to the firm's collapse. According to Valukas, Lehman former Chief Executive officer by the name Richard Fuld had forced the company to file misleading financial transactions so as to get off the uncounted \$50 billion dollars' worth of assets out of the

balance sheet. All of their unethical activities lead to Lehman Brothers' Bankruptcy.

There are many lessons from the Lehman Brothers' Bankruptcy case. Ethics and morals are the important factors that each business be it a financial institution or any other form should adapt. Following code of ethics, morals and positive values help businesses and individuals to take accurate finance accountancy as well as ensuring every single coin is accounted for in an organization. From this case, it is important to understand the basis of the issues, identifying ground rules governing the operations, identifying the deficiencies that led to that situation and be ready to accept change when need be.

Also, most financial firms, use Lehman Brothers; Bankruptcy as a case study so as to prevent such situation from occurring in their organization. At individual level, people learned the important of keeping the actual financial documents such as balance sheets since that where the problems started at the Lehman Brothers' Bank. Another key lesson learned from Lehman Brothers' Bankruptcy is that businesses should make rationale decisions that will be of benefits to the organization growth and development but not self-interest gains. Also, when a given crisis shows sign, the organization should take time to study the causes so as it will be able to smarter decisions that will lead to strengthening if the company rather than destroying it.