Causes of failure at lehman business essay

The article examined and analysed for this coursework is entitled for Lehman, More Cuts and Anxiety by Jenny Anderson and Eric Dash. It was published in the New York Times in August 29th 2008. Lehman Brothers was formed in 1850 and is a much diversified globalised financial institution with its headquarters in the United States1. Lehman had a client portfolio of corporations, governments and various individuals across the globe meeting their financial needs. However, the once successful Lehman Brothers is facing a tough time. This is due to the sub prime mortgage crisis, an ongoing economic problem of contracted liquidity in the global market and banking system, in the United States. This adversely destroyed the operations of Lehman brothers significantly as their finances were seriously affected. Lehman undervalued risk in the subprime market together with false accounting leading to catapulting collapse of the organisation2. As a result of these problems, together with external forces Lehman had to lay off 6000 of its workers. As quoted from main article by anderson3 “ Lehman has laid off more than 6000 workers since June 2007”. Speaking in the same vain, this influences the morale on the remaining staffs “ expected round of cuts is stark reminder of basic truth on wall street, in good times you get rich, bad times you get fired” 3. The repercussions such as layoffs backfiring, dissatisfied workers and employment laws are some of the challenges that management at Lehman will be facing and therefore needs to apply various management theories and concepts to overcome it. These include analytical frameworks of Jackson and Schuler4 and Kochan and Barocci5 in relation to internal human resources management, together with the rights and responsibilities which can be exercised by Lehman Brothers.

Causes of failure at Lehman:

There was not a single variable which lead to the fall of Lehman brothers but rather a culmination of factors such as greedy Wall Street traders, debt load of American household, Rating Agencies and degregulations6. However, out of these factors the main one was the market of credit default swaps. Morin and Maux6 gave an explanation of the sub-prime market as follows " inferior quality real estate loans who's higher risk of payment default is countered by the bank with higher rates." The mortgage loans granted at variable rates were granted to households with modest incomes.

Moreover in a separate report and SWOT analysis done by Datamonitor7 gave an insight into how Lehman exposure to sub prime market caused a risk to the company and went further to criticise it. " Investments in sub-prime mortgages and mortgage backed securities are at risk of being written off amid a crisis in US sub-prime mortgage market. Much of that prime dept was repackaged as collateralised debt obligations (CDO's) and mortgaged backed securities and was sold in the whole sale market" 7.

Another factor which needs to be considered is known as Repo 105. This is a purchasing agreement used to manage cash flow by organisations. It normally involves an agreement in which the bank gives one of its counterpart's highly liquid securities in exchange for cash. But in the case of Lehman they acted differently, according to Wilchins and Da silva8, Lehman Bought government bonds from another bank using its Lehman Brothers Special financing unit in the states. Before the end of quarter, the US unit transferred bonds to London affiliate called Lehman Brothers International. Afterwards, the London office gave assets to its counterparty and received cash and agreed to buy the assets back later at a much higher price, at least 105% of original price. The money that was received was used to cover and pay off a large amount of liabilities. Therefore the reduction in assets and liabilities showed a much better quarterly financial statements and corresponding ratios, appearing much better to regulators, investors and the general public. At the start of the next quarter Lehman borrowed more money using it's falsely made up financial statements and then only to repurchase the securities from its affiliates in London and in so doing it's financial statement will revert back to its preceding poorer position.

Discussion

With reference to the main article2 for the essay, after the mortgage crisis, management at Lehman had to re-structure their strategies for managing. " Lehman executives are examining many options, among them is the sale of investment management division, which includes Neuberger Berman and could fetch $7-10 billion. Other options include the sale of about $40 billion of troubled commercial real estate, and the creation of separate unit that would be owned by Lehman shareholders and house a substantial portion of Lehman's commercial and residential mortgage assets, as well as making thousands of staff redundant" 2.

According to Jackson and Schuler4, the implementation of a specific human resource management (HRM), practices, policies and philosophies and organisational performance are derived from an assortment of macro-level environmental influences. It was apparent in the case of Lehman Brothers that they should adopt the practice of organisational resizing in response to the economic and environmental conditions8. The degree to which their remaining employees respond and execute their duties will be deeply depended on how the human resource department handles the staff. In their model, the human resource management of Lehman needs to think about external factors such as culture, laws and regulations, politics and industry partners relevant to investment banking9. Moreover, the model shows the dependency between the processes of information interpretation, decision making and communication management in relation to the organisation’s technology, structure, size, strategy and life cycle stage. As a conglomerate company operating in different countries, the amalgamation of the globalisation strategy and sustainable technology would help Lehman Brothers. Henceforth, Lehman should apply the model and reduce its financial burden as well as job dissatisfaction. It was sensible for Lehman to lay off some of its staff as the article said but an alternative strategy could have been to keep its staff but give a pay cut. Although how feasible this option is unknown.

In the same way, Kochan and Barocci5 provided an analytical framework demonstrating the informal linkage between the constantly evolving environmental conditions, HRM strategies and policies, and stakeholder’s goals and needs. It was significant for Lehman to understand the framework proposed by these management gurus as they have to make Human Resource decisions to convince both the organisation and its stakeholders including but not limited to maintaining profit, sustainable dividend payment to shareholders, provide a healthy and safe working environment, and customer service6, 7. The management model proposed by Kochan and Barocci went further to advocate that organisational HR analysis should be able to recognise the need for HRM strategies and policies to adopt and response to both internal and external organisational changes9. As said earlier, Lehman brothers could have kept their staff on and reduce their wages or find them temporary jobs and in so doing their financial woes could have been reduced and at the same time fulfil its responsibilities by providing short-term compensating jobs. However according to article used2, Lehman decided to permanently layoff 6000 workers which lead to backfiring by various stakeholders including some of the staff taking Lehman to court for unfair dismissal, retained workers felt job insecurity in a fearful environment, and loss of consumer confidence as reflected in the decline of mortgage financing applications in 2007. “ Lehman’s stock has been rattled by persistent rumours about what the firm’s next move will be. Last week, the stock fell 12% and rose 16% on two separate days. The shares have lost 73% of their value this year, rankling employees and customers” 2. Therefore to prevent Lehman Brothers being in the news for similar reasons, it should layoff its staff in accordance with employment law. However, if the law does not sanction this act then a revised job package needs to be considered as discussed earlier.

Although different Human resource management (HRM) strategies and practises exists such as human resource (HR) planning, staffing practices, performance and appraisal, workplace participants rights, responsibility and safety in the work place and etc. Not all of them are applicable in the article in the case of Lehman; the most relevant is HR planning and workplace participants’ rights and responsibilities. A tactical plan showing the elementary ideology and criteria fundamental to the success of such programmes is vital11. For the most part, strategically based organisations are now finding it beneficial to appraise the affectation of reduction measures in advance because an under-employment or over employment might obstruct accomplishments to change the organisation's niche11. The conventional all plans fit in every situation i. e. uninterrupted layoff plans by Lehman brothers of staffs in unsteady conditions, cannot be used as forecast anchor in low growth, volatile business environment. An assortment of management gurus have given support to the human resource practice as it is important in deciding which jobs are critical, which jobs will be lost, and to establish whether terminations should be concurrent or implemented using a phase down approach12. Accordingly, this enables the justification and magnitude of importance for Lehman to conduct a Human resource planning by engaging themselves in an ongoing environmental scanning of both the internal and external labour market in line with an analysis of their organisational objectives, strategies and policies in order to determine the right quantity and quality of employees. Perhaps it can argue that because Lehman had to lay so many staffs off during their problems, there was a bit of Human Resources Policy failure i. e. the institution was overstaffed.

The main other Human Resource practice which needs to be considered by Lehman is the workplace participants' right and responsibilities. This is because the employment liaison between Lehman and other respective parties are determined by signed contracts. Henceforth, the employment law in all countries around the globe sets the minimum standards and conditions for employment in a given region13. As the employment options are diverse and multifaceted, it is imperative for Lehman Brothers to have up to date and precise understanding of employment laws both in the home and host country. In referring back to the situation in which Lehman laid off staff launched a court claim for unmerited dismissal, it seems Lehman was oblivious to the employment law. Whilst at the same time, it was apparent that how to reduce the financial loss was what was dominating the irrational managerial executives. The Human relation practitioners at Lehman should have known better in the sense that you can't just dismiss a member of staff without cause and the member won't refer to the Director General of Industrial Relations Act 6713. Lehman in principle needed to endow with their offer of contract in agreement with what the content said. And Lehman has the duty to pay remuneration if employers are prepared to work.

Conclusions

In the current global economy, various organisations will face many uncertain external environment pressures, which will significantly influence the Human Resource Aspect of the organisation16. In the case of Lehman Brothers, due to the sub-prime mortgage crisis it lead to a range of negative outcomes such as laid off staff taking Lehman to court for unfair dismissal, retained staff had lots of job insecurity in an apprehensive environment, and finally the loss of customers assurance as seen in the decline of mortgage financing applications. Therefore with reference to the main article, two pertinent strategic human relations management theories were used to explain how Lehman could improve its organisational circumstances. The analytical frameworks of Jackson and Schuler3 and Kochan and Barocci5 were discussed. In the application of the former framework to Lehman it was suggested that they should adopt the practise of rightsizing i. e. temporary layoffs of staffs and pay-cuts. It was also analysed that extend to which the staff kept behind would react and perform was seen to be greatly determined by the ability of the human relations department to control the situation15. Moreover the framework also recognized the need for Lehman to adopt HRM strategies with response to the changes in the external environment i. e. temporary layoff plan and job repackaging.

Speaking in the same vein, two internal HRM practices were suggested to help Lehman out of its situation namely HRP and workplace participants rights and responsibilities. With respect to the HRP proposal, Lehman's' one fit all's application was damned and instead, the significance for Lehman to conduct a HRP taking into consideration continuous environmental scanning were emphasised as their past HRP was a disaster- permanently laying off surplus labour leading to wastage of resources and excessive payrolls.

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