

The Lehman Brothers: Consequences of Unethical Behavior

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Abstract

This document is a summary of the knowledge gained in this course about ethics. The ideas and the different concepts that were assimilated will be analyzed and synthesized in the lines below. In addition, a case study of the impact of unethical behavior will be analyzed and opinionated by the writer.

Ethics has been a major target in any kind of institution. According to Trevino, L.K., & Nelson, ethical deblaces have occurred consistently for the past 30 years and, ethics struggle in any kind of establishment is far from a fad ( Trevino, L.K., & Nelson . 26) as ethics was just being introduced in these times, it was questioned if ethics could be taught or not, as it is said that ethics, “ is an ongoing phenomenon that must be better understood and managed and for which business professionals must be better prepared.” ( Trevino, L.K., & Nelson . 26)

Many unethical behavior has been discovered in different institutions, whether work, school or church, maybe it is a result of the teaching individuals have received either at home or knowledge that were passed down from the institutions aforementioned.

A panelist at Princeton University from the video , “ Doing the Right Thing Ses 1” gave an analogy of his daughter receiving education in highschool about the closest explanation that they have about ethics. He proceeded in these lines, “ they defined for her, the definition of values is whatever it is you value.” hihs daughter proceeded, “ Dad, if I value good grades better than honesty, it’s okay for me to cheat?” This dialogue demonstrates that ethics can be seen through different lenses based on the education or information one may have recieved. To avoid this kind of situation that the panelist experienced with his daughter, it's better to have a concrete To have a concrete understanding of ethics.

In some business schools it is thought that ethics is to follow your own integrity. As this definition evolves, some wonders about those who have a poor of conscience as to some integrity

requires some connection to reasons. However, according to Google definition, ethics can be defined as the , “moral principles that govern a person's behavior or the conduct of an activity.” or as others simply like to put it is the difference between right and wrong, bad and good. As a concrete definition of ethics can be understood, it becomes easier to understand when unethical behavior occurs in setting instead of stating mere opinions.

The United States of America experienced one of the ugliest financial crises that occurred in History. It all occurred on September 15th, 2008 when the Lehman Brothers, the investment bank went bankrupt. According to Independent, the issue comes from a lack of trust of finance officers in different financial institution, “ Bankers in the US had developed a lucrative business of buying up the US mortgages of poor Americans (known as “subprime”), packaging them together with better quality mortgages and selling them on as essentially risk-free assets known as mortgage-backed securities.” in other words, people who were not qualified for some housing loans, would get them without any verification. Unfortunately, the severe consequences followed in 2006 when the US central bank raised interest rates in 2006 and many homeowners were unable to pay as homes started to default.

Unfortunately, the Lehman Brothers created a method called the repo transaction. A repo transaction occurs when, “ One company transfers an asset to another company in exchange for short-term cash.” This simply means that a company will transfer assets to another one to the agreement that the borrower will reimburse the cash and will take back the assets within a

specific date. With this method, the Lehman brothers were able to hide their debts and demonstrate that they had a great amount of liquidity.

In this process, they got more money out of it which is a fraud at our society's eyes. At the time, the CEO paid himself one half of a billion dollars without mentioning personal compensations. The reason this is a fraud is because they displayed the information to be sales while they were loans. People had to pay back 50 millions dollars for what they borrowed, which is insanely and strongly a fraud.

The ethical dilemma can be seen through different lenses. It depends on how one may see it. Primarily, many may acknowledge that Lehman Brothers had good intentions by providing housing loans to those searching for it, as it is known, getting a loan is not easy and helping people staying out of the streets is a good act of service.

However, the approach and the decision taken, was not the best of all. Ethically, the advisors had to make sure that the people getting a loan are eligible for it, which they did not do. They just approved people although they were doing it to help the economy. This scenario shows that the ends does not justify the means as certain decisions taken can cause more damage than good.

In addition, the Lehman Brothers hid their debt demonstrating that they have liquidity ability. Unfortunately, it is unethical to market something that is not true in business. With this case, it can be confirmed that a simple lie can cost people their life and years of work and

reputation stained. Among many companies, The Lehman Brothers were among the first to have had a major impact on the financial crisis. Unfortunately, in this situation, it can be understood that the ends do not really justify the means. This is where the ethical dilemma came from. Although they may have thought they were doing something right, it was wrong. As it is said in Proverbs 14: 12, “ There is a way that seems right to a man, but its end is the way of death.”, which was the outcome with the Lehman Brothers. It caused a global financial crisis.

The Lehman brothers have overcome many difficulties such as the Great Depression, two world wars and other crises. The Lehman Brothers was one of the giant financial firms of its time. While other institutions were struggling, they still found a way to thrive. During 2004- 2006, while capital markets surged 56%, they became the fastest-growing investment banking and asset management with a revenue of \$19.3 billion and a record \$4.2 billion net income. Unfortunately, it came a cultural shift over time to the public of their values and as to why they faced such situation, “While there were several factors contributing to its collapse, many experts seem to agree that it was in large part due to a lack of trust, over-leveraging, poor long-term investments, and shaky funding” ( The Streets)

When addressing or analyzing this issue, one can say that it is really unfortunate to see such loss and chaos in this world. From a scriptural approach, Proverbs 14: 12, “ There is a way that seems right to a man, but its end is the way of death.”, it can be really confirmed that the decision taken by experts may not always be the best, as all are subjected to mistakes and faults. Destruction comes fast, especially when one is imprudent. One must be very cautious when

taking decisions as what Lehman Brothers went through proves that certain paths/ways surely lead to death/loss and destruction.

In addition, Leviticus 25:39 “If your brother becomes poor beside you and sells himself to you, you shall not make him serve as a slave.”, helps one come to the understanding that profiting from one's misery is disastrous. Probably Lehman Brothers did not realize that they were profiting from these people without verifying if they were eligible for the loans. However, it totally seems as such. As one of the giant firms in their era, their advisors, their employees, their rules, values and code of ethics should have put a system in place to make sure that the people getting a loan would be in the proper position to pay out.

It is said in Psalms 128:2, “ you shall eat the fruits of your labor”, it is what the Lehman Brothers were receiving. The reap what they sow. This scenario can be compared to the car repair division of Sears, Roebuck and Co case study. The situation is almost similar. It is really hard sometimes to do the right thing as it is not always appealing. Sometimes, the culture of the environment that one evolves in can be very influential, which pushed one to make a decision that appears to be right, but in the long run, turns out to be very bad.

When evaluating the issue, there are social / cultural issues that must be considered. Primarily, according to *The Streets Things Went Left*, “For several reasons, including lenders defaulting on the risky loans and unsustainable subprime mortgages, the housing market began to crash in 2006. As it became clearer and clearer, these loans were ill advised and detrimental to

the health of the firms - Bear Stearns found out the hard way first.” when analyzing , the Lheman Brothers cannot be entirely be blamed as the housing market started to crash way before the crisis occured. However, they must still be accountable for the negligence from their part.

Unfortunately, they had to learn the hard way, but it is confronting to say that they realized that they made a mistake. Sadly, some mistakes are irreparable. Other companies that were involved in the same situation as the Lheman Brothers were able to find help as others were buying them .uforunalty, from a societal point of view, it was a disadvantage to some buyers, which is why they were unable to get help. Treasury secretary Henry Paulson, stated, "I can't do it again. I can't be Mr. Bailout." Paulson's chief of staff wrote to Paulson's press secretary, the Guardian reported. "I just can't stomach us bailing out Lehman ... will look horrible in the press, don't u think?", this statement slightly demonstrated that the firm could have gotten the help not to go bankrupt, but due to the fear of being seen on the wrong side of things, they were left at their own mercy. When analyzing , social issues can definitely be detected.

Being in the shoes of the Lehman Brothers is extremely difficult. Losing everything just in a year while everything was striving and flowing is unexplainable. Knowing myself, I do not like risking people. I always make sure that they have the necessary needs, at least if they are in my care. They say that wisdom comes with experience, what happened has never been seen. Therefore, it would have been hard to make an accurate prediction of the consequence that would have followed. Hwvere, seeing myself guiding my company to address the issue in private life

could have been very difficult. I cannot begin to imagine the pressure, the conscience unrest that would have followed. However, I would have learned from my mistake.

Some mistakes are irreparable, one can only learn from them. I am not sure what I would have done in this situation, but probably I would have tried to relocate employees and give them the letters of recommendation that they need to find other jobs.

The position that we decide to take always comes with consequences, whether positive or negative. With this situation, I am not sure what position I would have taken. It is very hard. They say that though time reveals character. That moment of trial would have revealed what I am made of, and how I would have dwelt with the situation. However, the negative consequence I would privately deal with would relate to shame, and guilt. It would have been very hard for me to forgive myself as I am very hard on me.

This case makes me reflect on how fast one can lose everything, in a blink of an eye. It also demonstrates that our decision can have global impact/consequences, one must take wise decisions especially when they are being taken on behalf of others. Also, I learned that the fact that one may think a decision is good, it may be the very destruction of our being, one must be very prudent and diligent.

However, if I found it necessary to train our employees in decision making, on ethics and on critical thinking, as we don't want to repeat the same mistake that occurred years ago. As the

world changes and things evolves, we are finding new ways to solve issues that do not endanger a whole nation. When we take a look at the mask situation, it took us a long time to react, but it cost us many people as they fell prey to covid-19. Some situations require immediate response and sometimes it is hard to be in the right path of things although it is not impossible.

### References

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