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Lehman Brothers' Financial Crisis:
The Nation's Largest Collapse of an Investment Bank

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Lehman Brothers' Financial Crisis:
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Report

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Abstract

Lehman Brothers' Financial Crisis:
The Nation's Largest Collapse of an Investment Bank

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On September 15, 2008, Lehman Brothers filed for bankruptcy causing the meltdown of the fourth-largest American investment bank that shocked the financial industry and caused major damage to the world's economy. This paper examines the situation leading to the bankruptcy of Lehman Brothers and identifies the key publics in the financial crisis. In addition, this paper examines the communications and relationships Lehman Brothers had with its key publics during the crisis from the perspective of the Excellence theory. The facts and evidence of the case of Lehman Brothers' bankruptcy that are presented in this paper are sourced from news releases, congressional hearing reports, examiner's reports on Lehman Brothers' bankruptcy filing, Lehman Brothers' earning reports, conference calls, and press releases. Finally, this paper will provide recommendations on dealing with crises based on Excellence theory and the opinions of public relations practitioners.

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Summary of Lehman Brothers' Bankruptcy

Shortly after midnight of September 15, 2008, Lehman Brothers, the fourth-largest investment bank, announced in a press release its intention to seek bankruptcy protection, ending its 158-years of banking history after a panic weekend seeking buyers and government bailout but turned out in vain. Two hours later, news of Lehman Brothers' filing for chapter 11 bankruptcy was on the media worldwide. Lehman Brothers' shares tumbled more than 90% on September 15, 2008. The Dow Jones declined by 504 points, its largest drop in a single day since the day after the 9/11 attack (Berenson, 2008).

Lehman Brothers' bankruptcy created the biggest bankruptcy in the U.S. history with its bank debt of $613 billion, bond debt of $155 billion against total assets of $639 billion, and more than 100,000 creditors (Onaran & Scinta, 2008). Lehman's hundreds of billions of dollars in losses was a result of having held on to large positions in subprime and other lower-rated mortgage tranches, bad mortgage finance and real estate investments. Lehman Brothers started to lose investors' confidence and its shares plunged during summer 2007, when the subprime mortgage crisis began. As the situation of the mortgage market worsened, Lehman Brothers suffered a huge loss as being one of the biggest mortgage players (Hudson, 2007).

According to Lehman Brothers' fiscal reports in 2008, in the second fiscal quarter, Lehman reported losses of $2.8 billion and was forced to sell $6 billion in assets. In the first half of 2008 alone, Lehman stock lost 73% of its value as the credit market

continued to tighten. Actually, Lehman Brothers was not the only company to suffer the consequences of bad mortgage investment, Bear Stearns, another mortgage player, was sold to JP Morgan Chase to avoid bankruptcy on March 16, 2008. After the down fall of Bear Stearns, Lehman Brothers' shares dropped 19 percent and was believed to be the next to fall (Sorkin, 2008, p. 260).

As the situation kept deteriorating, Lehman Brothers began to find buyers and investors but nothing really went through. Despite all of those bankruptcy rumors and plummeting shares, Lehman's CEO Richard Fuld told a journalist in July, "I will never sell this firm" (as cited in Gowers, 2008).

In August 2008, Lehman reported that it intended to release 6% of its workforce, 1,500 people, just ahead of its third-quarter-reporting deadline in September (Anderson & Dash, 2008).

On September 10, 2008, Lehman Brothers announced its preliminary third-quarter results and strategic restructuring plan, which includes significantly reduce commercial real estate, residential mortgage and other less liquid asset, and intentions to sell majority stake in the Investment Management Division. Chairman and CEO Richard S. Fuld, Jr. stated in the report (Lehman Brothers, 2008) as follows:

> This is an extraordinary time for our industry, and one of the toughest periods in the Firm's history. The strategic initiatives we have announced today reflect our determination to fundamentally reposition Lehman Brothers by dramatically reducing balance sheet risk, reinforcing our focus on our client-facing businesses and returning the Firm to profitability.

On the same day, before any chance to see if the plan could start a revival, Lehman Brothers' stocks dropped another 45 percent when Korean Development Bank, the state bank of South Korea, withdrew from a possible acquisition.

In a few months, leading up to Lehman's downfall, Fuld, President and CEO of Lehman Brothers, initiated discussions with better-capitalized companies for mergers and tried to find a commercial bank to buy the entire company. He also sent emissaries to Asia and the Middle East looking for money. However, none of them succeeded (Story & White, 2008).

On September 12, the Federal Reserve announced to more than 20 CEOs from Wall Street that the government would not bail out Lehman Brothers and would leave it up to Wall Street to solve its problem in an emergency meeting at 6 pm at the Federal Reserve building in Lower Manhattan (Wessel, 2009).

After loosing government backing, Lehman desperately began to find a buyer, focusing on Barclays, the big British bank, and Bank of America. Bank of America eventually lost interest in acquiring Lehman after it learned about Lehman's losses in commercial real estate and could not get support from the government on some of Lehman's most-troubled real-estate assets. By Sunday September 14, the other hope from Barclays vanished as its English financial authorities were afraid that Lehman was a lot weaker than it thought and refused to approve the deal (Swedberg, 2009).

On September 15 Lehman Brothers filed for Chapter 11 bankruptcy protection after failing to find government rescue and any buyers. One day later, Barclays announced its agreement to purchase the core business of Lehman Brothers. On

September 20, 2008, a revised version of the deal, which includes Lehman's North American investment-banking and trading divisions along with its New York headquarters building and responsibility for 9,000 former employees, was approved by U.S. Bankruptcy Judge James Peck. After a 7-hour hearing, James Peck ruled, "I have to approve this transaction because it is the only available transaction." Luc Despins, a lawyer for the creditors committee, said the creditors were not objecting to the sale, but not supporting it, either. He said, "The reason we're not objecting is really based on the lack of a viable alternative," adding that they did not support the transaction because there had not been enough time to properly review it (as cited in Chasan, 2008).

Situation Analysis and Key Publics

The bankruptcy of Lehman Brothers indeed has caused a considerable impact on the economy, and the consequences are ongoing to an unpredictable end. The scope of the impact is in a wide variety of levels; economical, political, social, personal, and the national and global levels. Needless to say, individuals and organizations which have been and will be affected by this crisis have been overwhelmed.

To understand and be able to analyze the crisis in a more strategic and effective way, we have to identify the publics of an organization and have the knowledge of who they are and the relationship between them and the organization in crisis, such as Lehman Brothers. Organizational publics sometimes also referred to as stakeholders, constituents, or target audiences in public relations literature and practices (Hagan, 2007). The most essential definition of stakeholders is “any individual or group who can affect or is affected by the actions, decisions, policies, practices, or goals of the organization” (Hunt & Grunig, 1994). In other words, stakeholders and the organization have consequences on each other.

According to Hunt and Grunig (1994), there are three key characteristics for publics that are more likely to be active when the people who constitute these publics perceive themselves as (a) having a higher level of involvement in what an organization does, (b) having a higher recognition of the consequences of what an organization does with a problem, and (c) having lower recognition of constraint from doing something about the problem.

In this case of Lehman Brothers' bankruptcy, I recognize that their key publics constitute employees, shareholders, current and potential investors/partners, financial service consumers, rating agencies, media, and the government regulators. These key publics were affected by the consequences of Lehman Brothers' bankruptcy to different extents, and all would react to the crisis differently.

A special group of publics of Lehman Brothers is rating agencies. A rating agency is a third party which gives objective grades to financial institutions regularly with its professional guarantee. In the modern financial system, the information and grades issued by rating agency or an audit firm are regarded extra reliable and, therefore, having the power to influence the value of stocks in the market (Swedberg, 2009; Sorkin, 2009). Like other financial companies, Lehman Brothers' share value fluctuated along with its grade with rating agency.

Government institutions such as Federal Reserve, Treasury Department, Securities and Exchange Commission (SEC) play important roles of regulation and assistance. After Lehman Brothers revealed its deteriorating financial status in 2008, Federal Reserve and SEC started to closely observe the company's business. Secretary of the Treasury Henry M. Paulson Jr. was one of the people who had regular contact with Richard Fuld and even pressed him to find a buyer in summer 2008 (Nocera & Andrews, 2008). According to the congressional hearing on Lehman Brothers' bankruptcy, the firm turned to the Treasury secretary, Henry Paulson for a federal rescue in the last days leading up to its collapse (The causes and effects of the Lehman Brothers bankruptcy, 2008).

Lehman Brothers’ 25,000 employees worldwide compose a significant group of public. This is not only because employees are the resources and assets of the whole company’s operations and have a great amount of financial stake, but employees nowadays have obtained the power of forming the reputation of a company and influencing how other stakeholders see the organization (Makovsky, 2009). Because of the growth of transparency and social media, inevitably, every employee becomes a spokesperson for the organization, whether by word-of mouth through their circle of friends and family or as a spokesperson in front of the camera (Hagan, 2007). Even though employees of Lehman Brothers are constrained from talking freely to the media during the crisis, by anonymity, their little and short comments were still valued by the public but at the same time, hurting the public perception of Lehman Brothers.

Employees had a special position in Lehman Brothers because they owned almost 30% of Lehman Brothers’ shares. Since 1994, after Lehman Brother separated from American Express Co., the CEO of Lehman Brothers, Richard Fuld started to build the employee-ownership as the core of corporate culture to help unify warring factions of bankers ad traders (Smith, Craig, & Lobb, 2008). Lehman Brothers’ employees had gotten much of their pay and increasing amount of the compensation in stock and stock options over the past decades, especially senior executives. In 2007, according to an article on The Wall Street Journal (Smith, Craig, & Lobb, 2008), Lehman Brothers’ top five executives received 74% of their compensation in stock units or options. Even in July 2008, couple months before the bankruptcy, the CEO Fuld granted a number of new shares to employees as a way to keep them motivated.

This type of shareholder arrangement was not unique for Wall Street banks, but the magnitude of employees' shareholding in Lehman Brothers was still relatively surprising, and which made tremendous losses for employees when thousands of stock options became worthless after bankruptcy. In a news report (Fabrikant & Dash, 2008), one employee who left Lehman earlier this year lamented that he had put enough faith in the firm to retain shares, and now, "My children's education fund is wiped out," said this person.

Especially, what Lehman Brothers' employees were paid for their compensation was in restricted share, which typically cannot be cashed in for five years. Accordingly, former employees of Lehman Brothers would still be a group of key publics, who have serious monetary consequences with Lehman Brothers' financial status.

This fact made the relationship between Lehman Brothers and its employees more correlative and employees' personal wealth strongly tied with their company. An employee walked out of the headquarter building, and said to the media, "It's not just about losing a job. I'll find another one. I've worked here for over 15 years and had a lot of wealth invested in this firm" (FOX Press, 2008).

When it comes to Lehman Brothers' employees as key publics, I would differentiate them into two groups. One had the authority in making the decisions of the company's fate, and the other one was more passively affected in the crisis of bankruptcy. They could be divided by the positions and personal involvement in managerial decisions in Lehman Brothers, and the differences led to particular consequences they had of the bankruptcy. After the bankruptcy was revealed, regular

employees blamed the management headed by Lehman Brothers' President and CEO Richard Fuld for making the fateful decisions leading to the collapse. "We feel like we have been controlled by events and haven't controlled them," said one rank-and-file employee (as cited in Fabrikant & Dash, 2008).

The collapse of a leading company like Lehman Brothers for sure has caused extraordinary uncertainty and turbulence in the overall business industry, and the impact has become widespread and relevant to American consumers, even global consumers. The massive scale of the consequences from Lehman Brothers' bankruptcy makes it difficult to accurately conclude its publics and weigh the impact it has on its publics. In this paper, the focus is on Lehman Brothers' nearly 25,000 employees globally and investors as the key publics groups.

Crisis Communication with the Key Publics

When a crisis occurs, it means that special and more management and communications are needed than normal to handle the situation. Crisis management is a process of strategic planning for a crisis or negative turning point which helps remove some of the risk and uncertainty from the negative occurrence and thereby allows the organization to be in greater control of its own destiny, stated by K. Fearn-Banks (1996). She also said in her book that an organization should have communications with its publics prior to, during, and after the negative occurrence, which is called crisis communication.

In the time of crisis, the public perceives truth to be whatever the public opinion says, like what Barton (1994) suggests, "perception is reality" (as cited in Hagan, 2007). External publics obtain information and form their perceptions of an organization mainly through media communication. Especially in times of crisis, media's judgment of a particular event affects how an organization and its management are perceived by the public. Therefore, public relations practitioners should maintain media relationship regularly and have consistent contact with the media to provide authentic information and to temper negative opinion towards the organization. The essential role of crisis communications is to affect the public opinion process and to be instrumental in establishing and communicating proof that the prevailing "truth" is not factual or not wholly factual (Fearn-Banks, 1996, p. 9). Crisis creates information gaps. If an organization does not take timely actions to fill out the gap with its messages, the publics

would either seek for information on their won or, even worse, be filled with unofficial or biased information. As crisis is evitable, the crucial objective of crisis communication is to control damage to an organization's reputation and use the occasion of media attention to publicize an organization's mission, value, and operations (Lerbinger, 1997).

Crisis communication is especially important when it comes to financial crisis because it helps maintain the trust among investors, which is the foundation of financial business. The trust of Lehman Brothers' investors was eroding when the rumors about Lehman Brothers was the next to fall after Bear Stearns, another major mortgage-investing bank, collapsed on march 16, 2008. Lehman Brothers failed to control rumors and speculations spreading over the media, which hurt its investors' confidence and stock price till the end.

As an expert of crisis communication Sallie Gaines said, "when there is a vacuum of information, rumors and speculation fill that vacuum" (as cited in Garcia, 2008). In the time of instability, the best way to maintain the trust between an organization and its publics is to communication with the publics with authentic, accurate, and timely information in an effort to prevent rumors and speculation from spreading and exacerbating the situation.

The Excellence Theory

The importance and correlation the publics have with the organization make it essential that the organization knows who their publics are and communicate with them especially during a crisis. Ideally, an organization should execute a strategic approach of management to identify its key publics and develop strategic communication programs to communicate with different publics specifically, according to the Excellence theory (L. Grunig, J. Grunig, & Dozier, 2002).

The Excellence theory is a comprehensive and general theory of public relations that integrates a number of middle-range theories based on the basic proposition about the value of public relations to an organization and to society. Excellence theory is resulted from the pursuit of excellence in public relations began a decade ago. In 1985, the Foundation of the International Association of Business Communications (IABC) sponsored a research team of scholars and practitioners led by James Grunig from the University of Maryland to conduct the Excellence study, which is based on the questions that how and why public relations contributes to organization effectiveness and how public relations should be organized and managed to be able to make the contribution.

According to the proposition of Excellence theory, public relations contributes to organizational effectiveness by reconciling the organization's goals with the expectations of its strategic constituencies which has monetary value to the organization, and by building quality and long-term relationships with strategic constituencies (Grunig, 1992, p. 86). To fulfill such contribution, an organization should achieve what stated by J.

Grunig and White (1992) that "for public relations to be excellent, public relations must be viewed as symmetrical, idealistic and critical, and managerial" (p. 31).

To be symmetrical means that public relations practitioners serve the interests of both sides of the relationship, the organization and its publics. To be idealistic and critical means public relations practitioners have the freedom to advocate the interests of publics to management and to criticize management decisions that affect publics adversely. To be managerial means that public relations fulfills the managerial role of negotiating and mediating the conflict that occurs between management and strategic publics (L. Grunig, J. Grunig, & Dozier, 2002). Public relations helps an organization build stable, open, and trusting relationships with its publics, which as a result, makes an organization achieve its goals.

The Excellence theory suggests the characteristics of an excellent public relations department and communication programs with specific publics such as employees, customers, investors, donors, media, the community, and governments. Essentially, the public relations function must be empowered as a distinctive and strategic managerial function. To achieve that, the senior public relations executive should be involved in the strategic management processes of the organization. Also, communication programs developed for strategic publics should be identified as a part of this strategic management process so the publics can participate in the organizational decision that affect them. Perfectly, the senior public relations executive is a member of the dominant coalition, which is a group of senior managers who have the control of the organization, or has a direct reporting relationship to the dominant coalition. In addition, it is suggested that an

organization has the diversity embedded in all public relations roles as well as in its environment. On a more micro level, communication programs organized by excellent department should be managed strategically, which means that programs are based on research and environmental scanning and are evaluated if the relationships of the organization and its publics are improved (Botan & Hazleton, 2006).

Furthermore, Excellence theory proposes the environmental and organizational contexts where excellent public relations would flourish the most. Externally, Excellence theory states that a turbulent and complex environment with pressure from activist groups would stimulate organizations to develop an excellent public relations function (L. Grunig, J. Grunig, & Dozier, 2002). Inside the organization, organizational characteristics of structure, culture, communication system, treatment of men and women, and power of management are all decisive in its public relations practice.

The internal context includes having (a) a participative rather than authoritarian organizational culture, (b) a symmetrical system of internal communication, (c) organic rather than mechanical structures, (d) programs to equalize opportunities for men and women and minorities, and (e) high job satisfaction among employees (Botan & Hazleton, 2006). The structure of an organization largely results from the management's decisions and leadership.

Having an organic structure and symmetrical communication inside the organization helps to build a participative culture, which empowers employees to participate in decision-making and, in turn, increases employee satisfaction with the

organization. Satisfied employees are more likely to support the goals of the organization and to be effective symmetrical communicators with members of external publics.

Examining Lehman Brothers' Crisis Management According to Excellence Theory

The primary proposition of Excellence theory is that organizations should use two-way communication to learn the consequences of what they are doing on all of their relevant publics. A core part of processing two-way communication, which is often undervalued, is gathering intelligence through research, systematic observation, and perhaps just listening. The process of opening up the organization to its environment is verified in Excellence theory as to reduce the uncertainty inherent in the external context.

After filling for bankruptcy, an employee who worked for Lehman Brothers for more than 15 years said to the media about the situation inside the Lehman Brothers' office, "There's a lot of anger and feelings of uncertainty" (FOX Press, 2008).

Lehman Brothers did not talk with its strategic constituencies as Excellence theory states. Base on the Excellence theory, excellent organizations should use two-way communication to tell their publics what they are doing to correct negative consequences (L. Grunig, J. Grunig, & Dozier, 2002). The reality in this case was that back to the weekend shortly before Lehman Brothers' bankruptcy, when the core management was busy negotiating and finding rescue, employees were in quite perplexity and panic, not knowing about what was next to come. There were many rumors and speculations among Lehman Brothers' employees, even those in senior positions, not to mention the regular employees. There was no authentic information or any announcement given out within Lehman brothers at the peak of the crisis, even, on Sunday, September 14, one day before Lehman Brothers was pronounced to file for bankruptcy protection (Tibman, 2009).

Lehman Brothers sent out a press release announcing its intention to seek bankruptcy protection about 12:45am on September 15. Lehman's 25,000 employees learned of the filing through the media, with no direct communication coming from the CEO Fuld or other Lehman Brothers' executives, according to a report from the New York Times (White & Grynbaum, 2008). Employees' emotions were affected by the media whenever news about the firm's liquidation was reported. "What have you heard?" was a common question among employees, mostly met with shrugs and silence. No one seemed to know the specific fate (White & Grynbaum, 2008).

The situation of uncertainty and lack of information was no less among Lehman Brothers' other American offices and even oversea offices, where they had no authentic channel to obtain information from their New York headquarter. According to a news article, Lehman Brothers' Colorado office referred media inquiries to Lehman Brothers' public relations representatives at the headquarter, and got no response to an email (Fillion, 2008). Lehman Brothers' 2,500 employees in India office were in the anxiety about their future as well. "There has been no written communication from the human resource department and the management. All that we have got to know is that this would be our last working month [September]," said an employee from Lehman Brothers' office in Mumbai, India (Hariharan & Bhanot, 2008).

On Monday, September 15, the first day after announcing the bankruptcy, there was no layoff announced officially in Lehman Brothers. An employee from Lehman Brothers fixed income division told the new media, "As of Monday morning, no official statement had been sent out to us," "We were just told to come into work to conduct

business as usual" (FOX Press, 2008). Following the bankruptcy announcement came a wave of liquidizing trades and selling of assets. The management of Lehman Brothers tried to offer incentives to avoid "job abandonment," in which employees stop showing up even though they have not been formally laid off, in order to keep employees needed for ensuing business. What actually happened was that only about two-thirds of the employees showed up in Lehman Brothers' headquarter office on Monday, September 15. The tax department faced an immediate problem of significantly reduced staffing from 70 to 23, yet there was no reduction in the amount of tax fillings (Snowdon, Steinberg, & Lippman, 2009). While Lehman Brothers entering bankruptcy meant tearing up employment contracts and with no benefits or guarantee of adequate compensation structure, it was difficult to keep staff. Especially in this case, Lehman Brothers did not practice a symmetrical system of internal communication, which Excellence theory suggests, to keep employees informed along with the changing situation and make them feel in the same boat with the fate of Lehman Brothers.

Four Models of Public Relations

Most of the crisis communications theories build on the public relations excellence theory developed by L. Grunig and Hunt and later expanded by J Grunig and L. Grunig (1992). The excellence theory is based on types of public relations practices called "models" (Fearn-Banks, 1996, p. 11). The leading scholars of the Excellence theory, L. Grunig and Hunt (1984) defined the four models, which provide a way to understand and explain the behavior of public relations practitioners and the way communications are conducted for different types of publics. Over the years, public relations models have been debated and reconceptualized; nevertheless, these models still accurately describe public relations practice. The four models are: press agentry/publicity, public information, two-way asymmetrical, and two-way symmetrical (Grunig & Hunt, 1984).

In the press agentry/publicity model, public relations practitioners publicize their organizations in a way that may or may not be truthful. Often, falsehoods, half-truths, and incomplete facts are disseminated. It is a one-way transfer of information from the organization to the publics with little or no research required (Fearn-Banks, 1996, p. 11). The public information model involves the one-way transfer of information similar to the press agentry model, but the dissemination of accurate information is a characteristic of the model. In a crisis, public information officers work with management and emergency personnel, issuing official statements and informing the media and other key publics about the situation (Hagan, 2007).

The two-way asymmetrical model uses persuasive messages to influence the attitude and behaviors of key publics (J. Grunig, 1992, p. 18). In times of crisis, this model attempts to influence the opinions of an organization's publics, but not the organization's (Hagan, 2007). Management does not change its position on the issue. In the two-way symmetrical model, the opinions of both the organization and its publics can change, which helps both adjust and adapt to each other (Hagan, 2007). This model uses research to help organizations manage conflict and understand their strategic publics (J. Grunig, 1992, p. 18). Conflict is reduced when the organization and its publics adapt mutually to each other, meaning the organization is as likely to change its position as is its publics.

Excellence theory suggests the two-way symmetrical model is the ideal model for public relations communication programs, because of its focus on balanced communication and on accommodating both the interest of the organization and its publics. The goal of the symmetrical model is to reach an acceptable "win-win" situation for both the organization and its publics, which helps to establish long-term, mutually beneficial organizational-public relationships (L. Grunig, J. Grunig, & Dozier, 2002).

In practice, all four models are used for different purposes and situations. In the case of Lehman Brothers, it appears that the press agentry/publicity model described the handling of its bankruptcy.

Based on the findings from the court-ordered investigation and evidence from the congressional hearing, Lehman Brothers released inaccurate information in its 2008 financial quarterly report. Lehman Brothers announced in a press release dated Sept. 15,

2008 its intention to file bankruptcy. After the crisis unfolded, there was no communication from management to employees about the bankruptcy. Lehman Brothers did not proactively communicate with all of its key publics, as prescribed by Excellence theory. The testimony of Lehman Brothers' CEO Richard Fuld before Congress on Oct. 6, 2008 was the investment bank's first public statement.

The Excellence study states that "Openness seems to be the key to both short-term and long-term gains. Candor helps the organization survive the crisis" (L. Grunig, J. Grunig, & Dozier, 2002, p. 459). Lehman Brothers failed to be open and honest about the devastating financial situation, and when the crisis occurred, it did not practice symmetrical public relations.

Criticisms of Lehman Brothers

After more than a-year-long investigation, a report on the causes for Lehman Brothers' bankruptcy was released on March 11, 2010, and is available online to the public (http://lehmanreport.jenner.com/). The 2,200-page report was written by examiner Anton R. Valukas, chairman of law firm Jenner & Block, who was appointed by the U.S. Trustee with the approval of the United States Bankruptcy Court for the Southern District of New York in January 2009. In the course of the investigation, the examiner conducted interviews, viewed millions documents from Lehman Brothers, third parties, and government agencies and emails between Lehman Brothers' executives. He also had access to Lehman Brothers' internal systems in an attempt to investigate the acts, conducts, assets, liabilities, financial condition, the operation of business, and any other matter relevant to the case of Lehman Brothers bankruptcy.

The examiner eventually concluded, "Lehman was more the consequence than the cause of a deteriorating economic climate," and said while some of Lehman 's management's decisions were subject to question, in retrospect, fell within the business judgment rule and were not liable for the firm's collapse. However, evidences laid out in the report indeed provide substantial information to conclude that Lehman Brothers failed to execute open and honest communications and failed to establish healthy and symmetrical relationships with its publics.

Most importantly, risk management was virtually ignored by Lehman Brothers' top executives which caused Lehman Brothers to recognize and react to the crisis too late

and resulted in the ultimate financial failure. In an email quoted in the report, James Ballentine, a managing director at Lehman Brothers wrote, "Simply put, not one of the business heads depended on the (risk management) report," "Most didn't even know that it was produced daily, and no one looked at it with any frequency." According to the report, Lehman Brothers' senior managers were confidant making business judgment and decisions based on their own understanding of the market, regardless of the guidance provided by Lehman Brothers' risk management system. When the subprime residential mortgage business progressed from a problem to a crisis in the spring of 2007, several subprime lenders collapsed; however, Lehman Brothers contrarily adopted an aggressive strategy. In pursuing its aggressive growth strategy, Lehman Brothers' management chose to disregard and overrule the firm's risk controls on a regular basis.

As a result, Lehman Brothers' risk appetite usage continued to increase and exceeded the limit significantly and repeatedly. However, rather than reducing its risk usage, Lehman Brothers cured its appetite overages by increasing its firm-wide risk appetite limit for fiscal 2008. The increased limit amount resulted from substantially changing the assumptions used previously in calculating the limit, and from using a very aggressive 2008 budget revenue figure. In fact, based on the methodology for calculating the risk appetite limit, a slowdown in revenues should have reduced Lehman Brothers' ability to take risk.

Evidences further show that Lehman Brothers' CEO Fuld placed a higher priority on increasing profits than on keeping the firm's risk level within the limit generated by its risk management policies and metrics. Cited in the report, Kentaro

Umezaki, a managing director of Lehman Brothers, noted after a firm-wide speech by Fuld, “The majority of the trading businesses focus is on revenues, with balance sheet, risk limit, capital or cost implications being a secondary concern.”

According to a number of instances from the report, Lehman Brothers’ internal communication between its management and the Board of Directors was questionable and insufficient.

Lehman Brothers’ management did not disclose certain information concerning the amount and duration of the firm-wide risk limit overages and their decisions to exceed certain limits to the Board of Directors. In the fall of 2007, Lehman Brothers had a series of Board meetings. To avoid the Board considering that Lehman Brothers was “out of bounds,” Chris O’Meara, Former Chief Financial Officer directed to remove the limit information from the chart provided to the Board at each meeting. In addition, O’Meara told the Board that Lehman Brothers had a higher risk capacity than it actual did, and did not mention that Lehman Brothers generally had been in excess of the risk appetite limit since May 2007, according to the report.

On January 29, 2008, the entire Board met again. During these meetings, management discussed the difficult market, but intentionally emphasized the potential opportunities for Lehman Brothers to pursue a growth strategy, and told the Board that Lehman Brothers’ balance sheet continued to grow across almost all asset classes and businesses.

The communication default within the management and the Board is hard to define since there was no explicit direction from the Board as what information and to

what extent should be provided by the management. However, Lehman Brothers' management should have made the judicious determination of what level of detail the board needs to know to fulfill its obligation of monitoring risk decisions. It is fairly certain that Lehman Brothers' management should have provided its Board with more information in a more timely matter about the firm's risk usage and status of liquidity.

In times of crisis, open and honest communication is essential (Hagan, 2003). Lehman Brothers' credibility on being open and honest with its investors was doubted during the crisis. In the congressional hearing (The causes and effects of the Lehman Brothers bankruptcy, 2008), Richard Fuld was questioned about misleading investors about the extent of its losses in the days leading up to the bankruptcy in a conference call on September 10, 2008. During the conference call, Lehman Bothers' executives told investors that no capital would be needed and Lehman's real estate investments were properly valued, which was a day after the company determined it needed to raise at least $3 billion and five days before Lehman Brothers filed for bankruptcy (Onaran & Woellert, 2008).

The evidences presented in the report, to a certain extent, confirm the accusation of Lehman Brothers providing misleading and manipulated information of its financial condition to the public.

According to the examiner's calculation, Lehman Brothers managed to reduce about $39 billion from its balance sheet at the end of the fourth quarter of 2007, $49 billion in the first quarter of 2008 and $50 billion in the second quarter of 2008. The report concluded this as an "actionable balance sheet manipulation."

For the purpose of maintaining investors' confidence and favorable ratings with rating agency, Lehman Brothers originated a set of accounting tactics, known within Lehman Brothers as “Repo 105,” to conceal its perilous state of leverage and debt levels and sugarcoat its public financial report.

As Lehman Brothers had to announce a loss of $2.8 billion for the second quarter report of 2008, it sought to cushion the bad news by trumpeting that it had significantly reduced its net leverage ratio and asserting that it had a strong and robust liquidity pool. However, Lehman Brother did not disclose that it had been using an accounting device to manage its balance sheet. In an interview, Lehman Brothers’ former Global Financial Controller Martin Kelly confirmed that the only purpose or motive for using Repo 105 was reduction in the balance sheet. Moreover, according to the report, Martin Kelly had expressed the concern to Lehman Brothers’ Chief Financial Officers, Erin Callan and Lan Lowitt, advising that it meant “reputational risk” to Lehman Brothers if the use of Repo 105 became known to the public.

As late as September 10, 2008, five days before the bankruptcy, Lehman Brothers publicly asserted that its liquidity pool was approximately $40 billion in its earning conference call. However, it did not explain that a substantial portion of that was in fact encumbered or illiquid.

Lehman Brothers repeatedly used what the report characterized as “materially misleading” accounting gimmicks to significantly and temporarily lower leverage numbers and represented those fraudulent low numbers to its investors as positive news. Lehman Brothers’ use of these accounting devices was hidden from the government

regulators, rating agencies, its investors, and even to its own Board of Directors.

As described in the report, Lehman Brothers' CEO Fuld denied having knowledge of the usage of Repo 105 but did recall issuing several directives to reduce the firm's debt level. The report concluded that there are claims existing against Lehman Brothers' senior officers who were responsible for balance sheet management and financial disclosure.

In sum, Lehman Brothers' senior managers failed to appreciate the importance of risk management and disregarded the internal risk limit metrics, and at the same time adopted the unwise business strategy, which led to the heart of Lehman Brothers' ultimate financial failure. To its investors, Lehman Brothers did not fulfill the responsibility of providing the true information, creating open and honest communications, and, at least, managing investment with the most feasible judgment. To the rating agencies, from whom investors are supposed to obtain objective and trustworthy references, Lehman Brothers released the manipulated financial numbers in an attempt to remain within the reasonable range established by the rating agencies and be rated favorably. As to the government regulators, Lehman Brothers concealed its dishonest financial transactions from them and failed to notify them when its financial situation went below the required level. There were also lack of information transparency, insufficient communication, and unclear accountability between Lehman Brothers' management and its Board of Directors.

The few days before and after the announcement of Lehman Brothers' bankruptcy, there were crowds of media crews camping outside Lehman Brothers'

Manhattan headquarter, trying to catch every scene of the meltdown of this fourth-biggest investment bank. Numerous news articles from interviewing Lehman Brothers' employees appeared rampantly on the media. By anonymity, employees expressed their uncertainty, worry, sadness, and anger about the consequences and situation they faced from the bankruptcy, including the loss on Lehman Brothers' stock, vanishment of months or up to years of severance pay, prospect of unemployment, and the coming paychecks.

Facing the collapse of Lehman Brothers, some employees cried, some shouted at the media camera, and some others just packed their belongings and left dismally. The media described a very vivid scene of the outside of Lehman Brothers' Manhattan headquarter in the morning after the bankruptcy announcement as follows:

> Employees, some in suits, others in casual clothes, are filing out with all they can carry as time runs out.... A big cop issues the standard "keep moving" line to those of us who stop to gaze. He tells the crowd, "Go home. There is no one famous coming out. You are looking at a whole bunch of people who just lost their jobs." Some of the people behind the barricades are loved ones - their faces distraught, their cars waiting to pick up their significant others and their boxes.... "No comment," is the standard line....I managed to ask one guy how he felt: "Look at all of us with boxes," he said with a grimace. "What do you think?" As the night wears on, dozens of younger workers start coming out of the building. One yells, "Jackals,"... (Serwer, 2008).

While the anger and criticisms from Lehman Brothers' employees were at first directed toward the government for not providing a bailout, it quickly shifted to Lehman Brothers' management. A 39-year-old employee from Lehman Brothers, Leslee Gelber, expressed her angry to the press, "Dick [Fuld] always claimed he cared about us, the employees," "Now we're out in the cold. The greedy leaders at the top are to blame," she said. Gerber also mentioned that there was widespread anger at CEO Richard Fuld and

other top executives after the banktuptcy (as cited in Siemaszko, 2008). Complaining voices like that were not alone in the media, at Lehman Brothers' London office, an employee responded when asked about the situation inside the firm, "People are angry," "They thought the management messed it up. Any outcome would be better than this" (as cited in Crowley & Penny, 2008).

As Walter Gerasimowicz, a previous investment strategist from Lehman Brothers concluded, "It makes me rather sad to see this organization brought to its knees as the result of what I'll call a lack of control, poor management of internal risk and ultimate self-interest" (Fillion, 2008).

These accusations, to some extent, were confirmed more than a year later by an investigation conducted by a court-assigned examiner (Valukas, 2010). One fateful move Lehman Brothers took to make its financial situation eventually beyond rescue was to continue and even strengthen its commercial real estate business in the first half of 2007 despite the onset of subprime mortgage crisis. According to the examiner report, Lehman Brothers' management acknowledged miscalculating the situation. As Lehman's CEO Fuld admitted in an interview with the examiner, Lehman Brothers underestimated both the severity of the subprime crisis and the extent of the contagion to Lehman's other business lines. The report also concluded that Lehman Brothers' financial plight and the consequences to its creditors and shareholders was exacerbated by Lehman Brothers' executives, whose conduct ranged from serious but non-culpable errors of business judgment to actionable balance sheet manipulation (Valukas, 2010).

Along with mismanagement accusation, Lehman Brothers also faced lawsuits filed by former employees and investors. A class-action lawsuit was filed on November 4, 2008 on behalf of more than 100 former employees who were fired in a round of layoffs on September 9, 2008. The lawsuit claims that Lehman Brothers violated the Worker Adjustment and Retraining Act for not giving 60 days advance notice of a layoff and seeks 60 days salary, benefits and severance pay, which were ceased since the bankruptcy filling (Amon, 2008). Lehman Brothers' investors, including Lehman Brothers' former employees, also sought class-action lawsuits, accusing company insiders and others of misleading them before the firm collapsed and contending that Lehman Brothers' financial reports lacked transparency, masking its exposure to mortgage-related losses. Due to the bankruptcy proceedings, the firm itself is not the defendant in the investor lawsuits, instead, CEO Fuld, other Lehman Brothers insiders, and board members are the defendants. The accusation proposed was supported by the "confidential witness" information from 20 former Lehman Brothers' employees that Lehman Brothers did not fully disclose the risk and losses in its real estate investments, which created a situation of former employees against the management (Graybow, 2008).

Lehman Brothers' President and CEO Richard S. Fuld, Jr.

Richard Fuld worked for Lehman Brothers for more than 40 years since starting as an intern in 1969, and held as the chairman and CEO of Lehman Brothers since 1994 until he resigned three months after the bankruptcy. When Lehman Brothers went under in September 2008, Fuld became the target of widespread criticisms, protests and regulatory probes, and named as a defendant in more than 50 lawsuits.

On October 6, 2008, Fuld was asked to testify before the House Committee on Oversight and Government Reform and explain Lehman Brothers' collapse. In the hearing, Fuld was questioned about regulatory mistakes and excessive compensations he and other top managers had gained even until couple days up tp the bankruptcy. These accusations against Richard Fuld did not materialize from thin air as the committee had received and examined thousands of pages of Lehman Brothers' internal documents (The causes and effects of the Lehman Brothers bankruptcy, 2008).

Before Fuld began his testimony, Henry Waxman, the chairman of the committee, said in the hearing "Mr. Fuld takes no responsibility for the collapse of Lehman." He also said that Lehman Brothers was a company in which there was "no accountability for failure," portrayed by received documents (Turmoil in the financial markets, 2008).

While Fuld said in the hearing, "I take full responsibility for the decisions that I made and for the actions that I took." He also said "Ultimately what happened to Lehman Brothers was caused by a lack of confidence." The media described Fuld' performance at the hearing as "Deadpan and emotionless, Fuld repeatedly frustrated congressmen by

answering questions with lengthy, technical financial explanations" (Clark & Schor, 2008).

From the perspective of public relations, Fuld could have done better for his role of being the head of Lehman Brothers in handling the crisis. His testimony on October 6 was his first public appearance since September 10, five days before Lehman Brothers filed for bankruptcy. Recognized as the public face of Lehman Brothers, Fuld's presence would have been a key factor in helping to calm the market and its publics. However, he did not address the public as soon as the crisis began and did not communicate with Lehman Brothers' shareholders, employees, creditors, and other vest numbers of stakeholders, allowing uncertainties and rumors to perplex its publics and hurt Lehman Brothers' corporate image.

With no staff meeting and material information given out after the bankruptcy announcement, Lehman Brothers' employees expressed through the media that they felt ignored and wondered when or whether their CEO Fuld, would address the employees' issue and explain exactly what they could expect (Sorkin, 2008).

As the CEO of Lehman Brothers, Fuld was seen as the one who steered Lehman Brothers' fate and was criticized for Lehman Brothers' demise. Cited in an article on The New York Times, an employee said, anonymously as many others, "I'm not a millionaire like a lot of these guys. Of course this is on Dick's hand," referring to Fuld, "It is all happened on his watch" (Fabrikant & Dash, 2008). Other Wall Street banks' executives blamed Fuld for not moving faster to seek a buyer for Lehman Brothers (White & Grynbaum, 2008). Criticisms also came from Lehman Brothers' London office, as an

employee talked to the UK media (Guardian Press, 2008), "[Fuld] Didn't come to London much. When he did, it was like a state visit. Things were tidied up. He never addressed the floor. When the Koreans offered to buy us last month, he knocked it back. He created the bankruptcy." Complaints on Fuld's consistent absence also existed in Lehman Brothers' New York headquarter office as Fuld was called "the invisible man" by the personnel from trading floor in headquarter office (McDonald, 2009).

For Lehman Brothers' collapse, Fuld publicly responded that he did all he could do to save this firm and blamed on lack of confidence and even government for letting his firm fail while rescuing others. However, he expressed his apology in a private address in April 2009 in front of employees of a new firm staffed by former Lehman Brothers' workers. He said, "I spent too much time out of the office with clients and trusted other people to manage the risk," "I'm sorry," cited in an article in the Wall Street Journal (Craig & Dugan, 2009).

According to David Grossman (2010), an expert in internal and leadership communications, in times of crisis, CEOs play the critical role in translating complex information for their staff. Employees want and need to understand the "why" behind decisions before they take any sort of action. Most importantly, leaders like CEO help shape an accurate perspective for employees by discussing what's happening and providing a realistic yet optimistic picture of the future. Richard Fuld, who had been credited for Lehman Brothers' long success, failed to fulfill his role as the CEO and is now being widely criticized for his firm' downfall and defective crisis management.

Conclusions and Recommendations

The financial turndown was, understandably, not under Lehman Brothers' control, but Lehman Brothers could have done better on its bankruptcy crisis management, which has gained itself countless criticisms and lawsuits. Based on the materials provided in this paper, the way Lehman Brothers dealt with the crisis is definitely against the ideal situation of practicing excellent public relations. Public relations theorist J. Grunig (1992) stated in his book that public relations is the "management of communication between an organization and its publics." The purpose of public relations is to help an organization build quality and long-term relationships with its publics by facilitating communications and therefore minimizing conflicts between them.

In the case of Lehman Brothers' bankruptcy crisis, there was no pre-crisis plan and no real understanding of the situation and consequences. Towards the end of Richard Fuld's testimony before Congress, he expressed that until the final hours of the bank, he still believed that a takeover by Barclays would save Lehman Brothers from bankruptcy. Other top executives also believed that a solution from the government, a suitor, or some combination of the two would be found in the end. The management of Lehman Brothers was either overconfident or did not understand the seriousness of the situation. Misunderstanding and unpreparedness led to the fact that the crisis of bankruptcy was managed rashly and inappropriately.

In financial industry, most of the crucial information is secured and controlled by few people who have privilege connection and relationships. In this case, most of the outside investors had to rely on the media outlet to be their main source of receiving

information about the company they invested or had interested in investment. Even though some of the customers and potential consumers were holding reserved attitude and were unsure about what was provided in the media. It caused a negative power, which was enough to destroy the already vulnerable financial system.

At this point, for financial institutions to survive, it is essential to have a strong relationship with the media and an authentic channel to provide the appropriate and timely information that is needed by investors and required for preventing a dramatic fluctuating financial market.

As the technology grows faster, new media to some extent has changed the environment of information exchange. Consumers are no longer waiting for the information they want, instead, with new technology, they can easily obtain information from the Internet and also disseminate on the Internet as fast as they want.

These factors have increased the difficulty for pubic relations people to communicate with its company's audience. It is no longer enough to just focus on communicating with traditional media, of course which is still really important. Moreover, public relations practitioners need to have a good control of the information existing in multiple new media channels, such as the Internet, word of mouth, social networks, and blogs, which could in turn become effective tools for practicing two-way symmetrical communications with the publics.

According to Excellence theory, an organization should always scan the environment to better understand the external and internal situations and have the ability to anticipate potential problems. More importantly, an organization should always have a

crisis management plan ready for the problems that might develop into a crisis in the future. Crisis is inevitable; however, practicing effective public relations, which include but is not limited to the two-way symmetrical communication with key publics, can at least mitigate the damage of a crisis to the organization if not resuscitate it.

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