Laissez Fairy Tales: Consensus, Cohesion, and Corporate Culture During the Collapse of Lehman Brothers

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LOYOLA UNIVERSITY CHICAGO

LAISSEZ FAIRY TALES:
CONSENSUS, COHESION, AND CORPORATE CULTURE
DURING THE COLLAPSE OF LEHMAN BROTHERS

A DISSERTATION SUBMITTED TO
THE FACULTY OF THE GRADUATE SCHOOL
IN CANDIDACY FOR THE DEGREE OF
DOCTOR OF PHILOSOPHY

PROGRAM IN SOCIOLOGY

BY
WILLIAM HOWARD BURR
CHICAGO, IL
AUGUST 2020
ACKNOWLEDGMENTS

Haul down the bridge, Sir Consul,
With all the speed ye may;
I, with two more to help me,
Will hold the foe in play.
In yon strait path a thousand
May well be stopped by three.
Now who will stand on either hand,
And keep the bridge with me?
–Lays of Ancient Rome

This dissertation was truly a collaborative effort and is richer because of the support and encouragement of many. I thank all those who stood on either hand along the way, but especially Marilyn Krogh, who generously gave her time to support my many aspirations for this project.

As the saying goes – no less true here than in life – any remaining errors are mine alone.
For Lauren Potthoff and Jill Saponaro.
Things written remain.
—Aaron Burr
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ABSTRACT

Understanding the ways in which organizations fail is foundational to the organization studies discipline. Organizational sociologists have outlined the various ways organizations and organizational cultures can fail separately or simultaneously, temporarily or totally. Yet, little effort has been directed toward proving that organizational culture is capable of surviving the complete and total collapse of the organization from which it emerged. This work uncovers a new way that organizations can fail that leaves their organizational culture intact. The author considers employee interactions during the Lehman Brothers bankruptcy by reassembling the cultural artifacts contained in a company email archive to demonstrate that organizational culture is less rigid and more resilient and unpredictable than previously thought. By centering organizationally situated interactions between employees at the meso-level, the author demonstrates how extra-local institutional logics can generate consensus, cohesion, and confusion during periods of organizational turmoil, when those logics are dynamically reimagined as endogenous to the organization by employees with disparate personal histories across distinct organizational positions, who embrace them, combine them, challenge them, and adapt them to support their own aims.
CHAPTER ONE

INTRODUCTION

What led to the ’08 crisis? First, there’s the buildup of the U.S. bull-market mentality. Now, I’m going to try to run through these quickly. It’s not just one single thing. All these things taken together – I refer to it as the perfect storm. But it starts with the government. They wanted everybody to be able to fulfill their view of the American dream. We had low rates, easy access to credit. That led to increased home values, household debt, people borrowed a record amount of money, and as rates went down further, people refinanced, they used their homes and the increased value in their homes as ATM accounts…

Lehman was not a bankrupt company. The information coming out now is speaking to that. Did we try to do everything we possibly could? Yes. Did we fall prey to other agendas? I’ll leave it at that… The real success for the firm, the real success for Lehman Brothers in my view, and the key differentiator, was our culture.

Former Lehman Brothers CEO, Dick Fuld
Opening Statement to Marcum MicroCap
May 28th, 2015

On Monday, September 15th, 2008 Lehman Brothers filed for bankruptcy. As the biggest bankruptcy protection claim in history, Lehman Brothers’ surpassed the next largest filing by over half a trillion dollars.1 The immediate aftermath of Lehman’s bankruptcy was marked by a broad market downturn and the collapse of investor confidence.2 As the public searched for a scapegoat, Lehman Brother’s executives found themselves mired in controversy. They were called to Capitol Hill to account for recent multi-million dollar employee bonus payments made only months before the company failed.3 Others condemned government inaction and a failure

to properly regulate the banking industry following Gramm-Leach-Bliley.\textsuperscript{4} Firms connected with Lehman were likewise unable to escape rising public enmity, as Lehman’s auditors became the subject of lawsuits alleging financial malfeasance.\textsuperscript{5} The federal government moved quickly to restore public confidence and stem the tide of bank failures after Lehman’s disintegration by authorizing the Troubled Asset Relief Program (TARP)\textsuperscript{6}, a $700 billion public bailout of the financial sector, which provoked populist protests, culminating in the Tea Party and Occupy Wall Street movements on the political right and left, respectively.\textsuperscript{7} As the consequences of Lehman’s failure rippled across the globe, most could only wonder, “What was going on at Lehman Brothers?”

Countless Lehman Brothers postmortems have appeared in popular film and print media since the bankruptcy. Some implicate the greed and narcissism of individual executives in the firm’s failure\textsuperscript{8}, while others condemn government regulators for failing to limit the worst of Wall Street’s excesses.\textsuperscript{9} Still more argue that the collapse of Lehman Brothers was brought on by the structural interdependencies of the financial sector itself.\textsuperscript{10} Few, however, have investigated the role of culture in Lehman’s demise, which is all the more surprising given former CEO Dick Fuld’s convictions that Lehman’s key differentiator was its culture. This reveals the extent to

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\textsuperscript{5} Reed, Kevin. 2010. “E&Y sued over Lehman’s audit,” \textit{AccountancyAge}, December 21.


which our current understanding of organizational culture during periods of organizational failure remains incomplete. Seeking to satisfy this need, this project examines the case of Lehman Brothers to consider how an organizational culture that celebrates merit and extols the talent and ability of its employees explains and accommodates for organizational failure. This research analyzes a database of emails written by Lehman Brothers employees in the months leading up to and immediately following the bankruptcy to interrogate the sense making strategies used by those within the firm during this period. In doing so, this research contributes to both the recently resurgent field of organizational culture and the nascent sociology of markets by providing an example of how organizational culture can overcome organizational crisis and survive despite the permanent and total failure of the organization from which it originally emerged. The paper achieves a further contribution by illustrating how the meanings systems associated with the free-market mentality can frustrate understandings of failure during periods of organizational crisis.

**Literature Review**

Culture is a system under which beliefs, rules, and assumptions are organized in ways that sometimes align, conflict, or are ambiguous and unexpected, but that enables people to do things together by linking the meanings of their actions and interactions in such a way that they can be read, interpreted, and understood by others (Martin 2002, Meyerson 1991, Mills 1988). Importantly, “culture does not necessarily imply a uniformity of values,” but rather a common frame of reference through which people “may array themselves differently with respect to an issue, but whether positively or negatively, they are all oriented to it,” (Feldman 1991: 154). Therefore, under this definition, organizational culture fails only when it ceases to meaningfully
order an organization’s practices in such a way that members are able to orient themselves to an event, issue, or change, irrespective of if that orientation entails acceptance, resistance, or indifference. Though they often coincide, it is possible for organizational failure and cultural failure to occur independently, such that an organization’s culture might fail while the organization itself does not. Moreover, organizational failure does not require that an organization cease to exist. An organization fails when it is unable to meet its officially stated objectives (Meyer and Zucker 1989) or achieve a goal that is normally expected (Clarke and Perrow 1996). Organizational failure is not necessarily permanent or total. Failure, as thus defined, can be temporary, with the organization prevailing after some momentary crisis. Similarly, when cultures fail they do so in discrete and unpredictable ways. Sometimes an organization and its culture fail simultaneously. Other times an organization’s culture fails and is replaced by a new emergent culture, as the organization overcomes some threat or crisis. On other occasions an organizational culture will not fail entirely, but instead split into multiple idiocultures that foreground certain aspects of the old culture while disregarding, replacing, or altering others. Figure 1 catalogs the multiple ways organizations and organizational culture can fail (or not) and offers illustrative examples of each type.

Previous scholarship documents the various ways organizational failure and the failure of organizational culture can occur (or not) either separately or synchronously in different instances. Traditional business school cases conceptualize culture as a means of organizational control. Managers direct workplace culture more or less monolithically, manipulating it to overcome organizational challenges while ensuring employee compliance with new or modified
organizational norms and policies. In these situations, the organization experiences a failure during which old beliefs and values are abandoned as obsolete and new ones, which are more suitable for making sense of and meeting the contingencies of the crisis, emerge to replace them. A classic example of this appears in Kotter and Heskett’s (1992) case study of Nissan. In 1981,
Nissan introduced the Nissan Stanza, their first front-wheel drive automobile. It was designed to have broad international appeal and was expected to be the first Nissan model that would compete directly with American and European manufacturers. After disappointing initial sales, the Stanza was subsequently recalled due to suspension flaws that made it unsuitable for American highways. Following this embarrassment, Nissan CEO Takashi Ishihara resigned and was replaced by Yutaka Kume, who sought to unshackle engineers’ creativity from the inwardly focused, regulation-obsessed autocratic culture that existed at Nissan. Kume introduced flexible work schedules, eliminated company uniforms, and gave engineers final say over the design of new models. Nissan’s engineers largely embraced this newly established independence and the allure of work group autonomy attracted a younger generation of engineers to Nissan. The result was a new culture of employee empowerment and youthful energy, which helped Nissan overtake Honda in domestic automobile sales by the end of the decade.

Other scholars, however, take a less instrumental approach to culture and organizational failure. Weick (1993) considers the deaths of thirteen backcountry firefighters during the Mann Gulch Fire to provide an example of an organizational failure during which organizational culture also failed and new norms and values did not emerge. Instead, the inability of the firefighters to orient themselves to the unfolding crisis ended in a complete collapse of sense making, role structure disintegration, and ultimately the demise of the group. Fine and Hallett (2014) take up the case of the National Weather Service’s mishandling of the deadly Plainfield Tornado to show how an organizational failure can engender, expose, or compound divisions between small group cultures within an organization. The failure to provide advanced warning of the devastating tornado became a point of differentiation between the National Weather
Service’s Chicago and Flowerland offices. Flowerland, a new office created as a result of the agency’s restructuring, developed an idioculture that emphasized collective accountability, while the Chicago idioculture was grounded in the individual autonomy of its forecasters. The failure of accounting giant Arthur Andersen reveals how distinct internal idiocultures compete for legitimacy and organizational control (Hallett 2003). Hallett (2003) characterizes Arthur Andersen’s cultural turmoil as a conflict between “Samurai” and “Merchant” group cultures. While the Samurai culture was engrossed in fidelity to established accounting practices, the Merchant culture was consumed with generating ever-greater revenue. Neither group proved capable of withstanding the failure on its own. Some “merchants” broke with the “samurai” to establish their own separate company and the remaining “merchants” pushed Arthur Andersen’s “samurai” into riskier relationships with Enron and Worldcom. Vaughan (1996) uses the Challenger Launch Disaster to outline a case in which organizational culture survives an organizational failure. Following the explosion of the Space Shuttle, NASA blamed the incident on the “amoral calculations” of the project’s managers and fired or reassigned those involved. NASA’s data-obsessed procedural culture of production that normalized technical deviance and incentivized calculated risk-taking, however, was allowed to endure unchanged. As a result, Vaughan predicted a high likelihood that the tragedy would be repeated, which was eventually borne out several years later when the Space Shuttle Columbia burst apart upon reentry.

Notwithstanding previous scholars’ robust and fastidious analyses of cultural and organizational failures, little attention has been directed toward the ways in which organizational culture might survive despite the total failure and dissolution of an organization. Filling out our understanding of this final remaining category would allow us to complete the typology in the
table above and augment the existing organization studies literature. While it is theoretically possible for an organizational culture to persist in the absence of the organization from which it emerged, demonstrating how exactly this comes about has proven to be an elusive contribution to the literature. Culture is only discernible through its patterns of manifestation (Martin et. al. 2006). For the social scientist, studying culture is challenging enough when the organization can be observed and data gathered in real time, but is made even more difficult when the original site of these manifestations no longer exists. Patterns and configurations of organizational culture become detectable when members interact to interpret their world (Martin et. al. 2006, Schein 1985, Schall 1983). Culture is enacted in interactions and, thus, revealed when people do things together (Fine and Hallett 2014, Hallett 2003). “To really understand a culture and to ascertain more completely the group’s values and overt behavior,” Schein (1985: 3) argues, “It is imperative to delve into the underlying assumptions, which are typically unconscious, but which actually determine how group members perceive, think, and feel.” These assumptions are constantly evolving within a negotiated order in such a way that they are largely taken-for-granted, but also modified and adapted by members as patterns of interaction shift (Hallett and Ventresca 2006). They are institutional in nature, bound up in logics that constrain organizational life, but are themselves subject to interpretation and modification through the local interactions that invest them with their distinct capacity to exert organizational pressure (Hallett and Gougherty 2018, Hallett 2010, Hallett and Ventresca 2006).

*Inhabiting Institutions & Logics in Interaction*

Previous generations of organization studies scholars were attentive to the internal tensions shaping organizational life (Meyer and Rowan 1977). Armed with the intervening
advances in organizational theory, it is the task of contemporary researchers to correct the
discipline’s macro-evolutionary drift (Hallett 2010: 55). McPherson and Sauder (2013: 166)
suggest, “More work is needed to unpack how local actors mediate institutional demands and the
requirements of day-to-day organizational activity.” By returning to an emphasis on local
interactions and considering how the extra-local meanings systems of institutional logics are
transformed in the process through which they become endogenous to organizations, an
inhabited approach that is equally sensitive to institutional context and local pressures harkens
back to the discipline’s neglected foundation (Hallett 2010: 66). Paramount to this perspective is
the knowledge that local action is not simply pragmatic or unconscious (Haedicke 2012).
Institutional logics consist of the “assumptions, values, beliefs, and rules by which individuals
produce and reproduce their material subsistence, organize time and space, and provide meaning
to their social reality,” (Thornton and Ocasio 2008: 804). Yet, while these logics are based in
part on taken-for-granted assumptions, their interpretation and invocation requires people, who
themselves have distinct convictions and motivations, to propel them, by way of interaction,
through organizational settings (Everitt and Levinson 2016, McPherson and Sauder 2013,
Haedicke 2012). In this way, institutions “establish the conditions of possibility,” but only
acquire their force and meaning when instantiated by people in interaction (Hallett and Ventresca
2006: 227).

People in organizations use local cultures to translate and respond to institutional
pressures (Haedicke 2012). Dorado (2013) draws on small group contexts to confound the idea
of the institutional entrepreneur, arguing that institutional adaptations and innovation emerge
from small group cultures. Others apply this outlook to demonstrate how different groups
promote their own permutations of institutional logics in order to legitimize competing organizational forms (Marquis and Lounsbury 2007, Dobbin and Zorn 2005, Lounsbury 2002) and to understand how prevailing logics can inform companies’ financial decision-making processes (Zajac and Westphal 2004). An institutional logics perspective links individual agency and cognition with the rule structures of institutional practice (Thornton and Ocasio 2008: 101). The legitimacy of prevailing institutions is preserved even when their logics are modified to meet local needs or are deployed in unpredictable ways. Thus, the taken-for-granted assumptions of institutional logics serve as the engines of institutional influence in organizations (McPherson and Sauder 2013: 185). Organizations, in fact, are precisely “places where institutional logics combine with local, embedded meanings to produce particular variations of local action,” (Binder 2007: 551). This comes about as people, in interaction, embrace logics, combine logics, challenge logics, and adapt them to meet their needs (Binder 2007: 568). As such, disagreements are inevitable, especially during periods of crisis when the stakes are high. We should consider how different groups within an organization and across all levels of its hierarchy might engage the same logics differently in pursuit of their own, often opposing, interests. Crucially, we must understand how these different groups enact a shared organizational culture even when adopting and emphasizing certain elements of a particular logic while ignoring that logic’s other aspects, as they go about reordering organizational life and working together, at times in concert and at other times in conflict, to construct their social world.

The consequences of Lehman Brothers’ sudden and unexpected failure are not confined simply to those immediately experienced by the people beleaguered by the company’s collapse, nor even to just the global financial system. That which can be gleaned from the case of Lehman
Brothers concerns every dimension of social life into which the free-market mentality permeates. The multiple ways in which Lehman employees constructed ideas about talent, merit, and the free market illuminate broader trends regarding how and when free market institutional logics, and the assumptions they encompass, are deployed. While previous scholarship outlines the relationship between organizations and organizational cultures when they fail together, either permanently or partially, less scrutiny has been directed toward the ways organizational cultures might survive the complete failure of the organizations from which they initially emerge. Supplementing the literature in this way requires overcoming organizational sociology’s “macro-evolutionary drift” and restoring emphasis on local interaction. This approach not only alerts researchers to the connections between local interaction and extra-local meanings systems, but also foregrounds the importance of organizational position and perspective in the interpretation process. Refocusing attention in this way brings to the surface the many ways organizational culture enables and constrains patterns of meaning making, while simultaneously being, itself, transformed through the local interactions within which these patterns emerge, are interpreted, and reenacted.

Methods

Explanations of financial crises offered by contemporary economic sociologists tend toward neoinstitutional accounts, emphasizing behavioral conformity, imitation, and even consolidation within the financial sector (Carruthers 2010, Pozner et. al. 2010), or “normal accidents” perspectives, which foreground the complexity and connectivity of the global banking system (Palmer and Maher 2010, Mezias 1994). Perrow (2010: 329) himself, however, posits a more agentive view of the 2007-2008 financial crisis, contending that financial executives were
complicit in a decades-long deregulation project while actively encouraging the acceleration of short-run self-interest, the results of which constitute “knowing malfeasance.” Perrow does not seem to be alone in this view, as the desire to discern guilt and condemn those responsible is seductive. Some of the search terms presented below, for example, which the bankruptcy examiner used to sort through Lehman Brothers emails, (see Figure 4; e.g. risk, punish, big trouble) indicate an interest in uncovering potential financial malfeasance.

Given the inclination to assign blame, it is important to recall that not a single Lehman Brothers executive was indicted as a result of the bankruptcy. In fact, following the better part of a year spent reading through nearly four and a half million email exchanges without discovering illegal activity, the bankruptcy examiner characterized management decision making as exhibiting “serious but non-culpable errors of business judgment.” (Valukas 2010: 3). The examiner’s team, and later Congress, interviewed 250 former Lehman employees without unmasking a conspiracy. Lehman was not some malicious criminal enterprise. Accordingly, if the employees of Lehman Brothers, including the firm’s leadership, were not the intentional architects of the company’s demise, what were they doing as the walls began crumbling around them? How did employees on the inside of Lehman Brothers make sense of the firm’s decline? And importantly, how does an organizational culture pervaded by the free-market mentality and wont to extol the talents of its employees explain and accommodate for organizational failure?

Data Analysis

In 2010, Richard Swedberg (2010: 104) asserted, “that there were a series of decisions in the fall of 2008 that turned the credit crunch into a full-scale financial panic and that one of the most important of these involved the bankruptcy of Lehman Brothers.” Swedberg (2010:83-84) calls
the March 2010 bankruptcy examiner’s report, which was compiled using five million internal company documents, “the most exhaustive investigation of Lehman’s affairs,” and suggests that the pages of these documents may contain the insights necessary to discern how Lehman’s leadership understood the unfolding crisis. This project examines a collection of nine hundred and thirty-one company email exchanges made publicly available as appendices to the court-appointed bankruptcy examiner’s report. Though I use the terms emails and email exchanges interchangeably throughout when describing the constituent components of the dataset, the examiner’s report labels and presents each set of email exchanges as an email chain, even those containing a single email. The email chains included below are reproduced as they appear in court records, preserving abbreviations, errors, and formatting wherever possible. Any corrections or clarifications necessary to ensure comprehension or make the exhibits more accessible, such as when employees use stock ticker symbols in place of full company names, are denoted with the use of brackets. The labels immediately following each email chain correspond to unique evidentiary exhibit identification numbers assigned by the United States Bankruptcy Court for the Southern District of New York. While previous scholars (Hallett 2003, Vaughan 1996) have utilized company documents, internal memoranda, and training materials to analyze the consequences of corporate culture, this project is among the first to use email archives to analyze the construction of shared meanings across an organizational culture. This collection of 931 email chains is the result of an extended filtering process by the bankruptcy examiner designed to identify internal communications most relevant to the disposition of remaining assets following the bankruptcy as well as to uncover potential financial malfeasance. This process required, what I call, a “branched bifurcation” selection regime
similar to the statistical recursive partitioning approach to Big Data (Breiman et. al. 1984; see Figure 2 for a simplified diagram of recursive partitioning). At the outset of the bankruptcy proceedings the court-appointed examiner discovered three thousand terabytes of archived employee emails, or approximately 350 billion pages of text, dating back to May 2006. This mass of data was narrowed to include only those emails containing specific items of interest to the examiner. The preliminary search used specific keywords in various combinations and yielded 5.15 million emails, consisting of approximately thirty-four million pages of text. Initial search terms are presented in Figure 3 and constitute what is best defined as a “descriptive” filter, eliminating emails not relevant to the bank’s operations and management strategy.

The results of the first search were filtered further in a secondary round of treatment. Contingent search terms are presented in Figure 4. This subsequent search returned 4,437,095 emails, consisting of some twenty-six million pages of text. The contingent search terms seem to
### Figure 3. Bankruptcy Examiner Initial Search Terms

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<td>Goldfarb</td>
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<td>Kirk</td>
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<td>Correspondent</td>
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<td>Aurora</td>
<td>Default</td>
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<td>Michael McGarvey</td>
<td>Mike McGarvey</td>
<td>Matthew Lee</td>
<td>Neuberger</td>
<td>Berman</td>
<td>Bridge</td>
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<td>Bonus</td>
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<td>Korea</td>
<td>Recap</td>
<td>Replac-</td>
<td>Resign</td>
<td>Archstone</td>
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<td>Strategy</td>
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<td>Discontin-</td>
<td>Guideline</td>
<td>Standard</td>
<td>Increase</td>
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<td>Stearns</td>
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<td>Bank of America</td>
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<td>Trimont</td>
<td>Gollin</td>
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<td>Reg-</td>
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<td>Whistle</td>
<td>Blow</td>
<td>Play Ball</td>
<td>Nomura</td>
<td>Flaw</td>
<td>Aggres-</td>
<td>Paulson</td>
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<tr>
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<td>True</td>
<td>Proceed-</td>
<td>Assum-</td>
<td>Bad</td>
<td>Wrong</td>
<td>Capital</td>
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</table>

### Figure 4. Bankruptcy Examiner Contingent Search Terms

- Bad Company
- Big Trouble
- Breach
- Concern
- Desperate
- Disaster
- Get Out Of
- Just Between Us
- Let’s Discuss
- Need Another
- Perception Issue
- Punish
- Real Objective
- Anxious
- Risk
- Slippery Slope
- Stupid
- Too Late
represent a more targeted and punctilious approach to the remaining email chains. These secondary search terms appear to reveal the bankruptcy examiner’s interest in demonstrating financial malfeasance or corporate fraud at Lehman Brothers. It would be inappropriate, however, to cast this as a primary aim with any certainty, as this was never stated as a direct objective of the bankruptcy examiner’s team. Furthermore, while bankruptcy examiners have in the past uncovered executive negligence as well as flagrant malfeasance, with Enron being perhaps the most prominent example, the primary function of the examiner is to serve as a mediator between creditors. In this capacity, it is important for the bankruptcy examiner, as chief legal investigator, to maintain the appearance of impartiality. Yet, contingent search terms such as: “risk, breach, and slippery slope,” do seem to, at least, suggest that the examiner was concerned about the possibility of management wrongdoing.

Between April 7, 2009 and March 11, 2010 a team of eighty-one contract attorneys reviewed each email and coded them according to the substantive topic area of each document. The principal objective of this coding was to “code out” items devoid of any financial irregularities, thereby selecting only those emails that had the potential to suggest employee impropriety. It must be noted here that the presence of financial irregularities and allusions to employee impropriety do not necessarily correlate to illegality, but rather divergence from the firm’s publicly reported strategy and stated goals, which if undermined would adversely affect creditors and/or shareholders. Associates at the firm of the lead examiner, Jenner & Block, performed intercoder reliability checks throughout. Documents identified as potentially relevant by the first level of coding were submitted to corporate finance consultant Duff & Phelps for

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more careful review and further coding. Duff & Phelps financial analysts separately coded the content of emails for any possible implications on the liquidation of Lehman’s remaining assets as well as the likelihood of and potential for corporate fraud. This stage of coding represents a shift from the more “exploratory” coding of Jenner & Block to a “selective” coding distinguished by more pragmatic considerations. Duff & Phelps’ proprietary coding strategy could rightly be described as a “coding in” process, as email exchanges deemed to be material to the disposition of Lehman’s assets against claims of creditors were included in the bankruptcy examiner’s report and made public by the court. These 931 email communications, representing approximately five thousand pages of transcribed text constitute the data considered below.

The lack of transparency during the two rounds of coding described above amounts to a major limitation of the data. To date, the codes used to narrow the set of email exchanges from over four million to the 931 that were published have not been disclosed, nor has there been any indication that they will be. The codes used by Jenner & Block, which were meant to categorize the email chains by the topic areas of their content, remain unknown. As such, we cannot say how broad or focused these “topic areas” were. Moreover, while a small group of Jenner & Block associates did perform intercoder reliability checks throughout the duration of coding, it is unclear what criteria were used when applying codes in the first place. The examiner’s published report references a high rate of intercoder reliability, but does not reveal an exact number. What is more, we do not know how many associates were involved in reliability checks, nor how often these checks took place. While the report states that eighty-one contract attorneys were involved in the initial phase of coding, we know little about their professional backgrounds, qualifications, or possible predispositions toward Lehman Brothers.
With respect to the proprietary coding completed by Duff & Phelps, while the examiner’s report outlines more clearly that the aim of this round of coding was the identification of financial circumstances that could influence the resolution of Lehman’s outstanding debts, we, again, do not know how codes were generated, the criteria used to determine code application, or the identity and qualifications of those involved in the coding process. Importantly, though we know that nearly four and a half million email communications were subject to the coding regime, resulting in the 931 presented to the court, there is no indication of how many email chains were submitted to Duff & Phelps for consideration. Therefore, while we know the starting point and results of the coding process, all intermediary steps remain clouded in uncertainty. A diagram of the cumulative treatment of the source data is presented in Figure 5.

Figure 5. Cumulative Source Data Treatment Diagram

One particularly striking characteristic of the Lehman email data is the unprecedented level of access they grant to those ordinarily insulated from the social scientist’s gaze. Laura
Nader (1972: 302) first made the case for “studying up,” while simultaneously drawing attention
to the challenges of doing so, namely that “the powerful… don’t want to be studied.” In his
retrospective on Nader’s contribution, Gusterson (1997: 115) notes that qualitative methodology
“does not travel well up the social structure.” Wall Street’s wealthy elite deploy their privilege to
erect barriers, both literal and symbolic, which set them apart from society and obstruct access to
and information about them. Mikecz (2012: 483) summarizes, “Elites are visible but not
necessarily accessible.” Elites do not constitute a homogenous group, however, as power and
privilege are not uniformly distributed even at the top (Domhoff 1990, 2018). As such, when
studying elites, researchers should be careful to examine how the power relationships among
elites influence how they construct meaning as they go about constructing the world (Declercq
and Ayala 2017). The different administrative levels within a bureaucratic organization like
Lehman Brothers only amplify the importance of respondents’ organizational position, as the
power to act on meanings is diffused broadly at all levels of an organization’s hierarchy (Hallett

Recent studies (Khan and Jerolmack 2013, Khan 2011, Ho 2009) primarily address the
socialization of elites occupying a single social location, with little attention to how internal
status differences within an elite group manifest in the process of sense-making. We do know
that the email data considered below benefit from an expansive view of Lehman Brothers
employees. The bankruptcy examiner’s staff narrowed the set of email exchanges to those
ultimately included in the bankruptcy report without regard for correspondents’ position within
the firm, from the mailroom to the boardroom. The surnames of several company executives do
appear among the preliminary search terms (see Figure 3) and this reveals the examiner’s special
interest in the activities of Lehman’s leadership. Yet, while special attention was given to the
e-mails of some, none of the original emails were excluded from consideration on the basis of job
title alone. Furthermore, the use of internal emails overcomes the challenge of disentangling the
company’s public position from the private views of Lehman personnel (Campbell 2002). Thus,
the data used in this study represent a combination of exceptional depth and breadth (Ragin and
Becker 1992), offering unparalleled access to 319 Lehman Brothers employees up and down the
firm’s hierarchy during a momentous two-year period in the company’s history. This makes
Lehman Brothers an exceptionally compelling case. Figure 6 presents a simplified outline of
Lehman’s organizational hierarchy along with a tabulation of the number of employees in each

Figure 6. Lehman’s Organizational Hierarchy Simplified

Executive Committee

15 Members Selected from among the Firm’s Managing Directors (18 employees)

Middle Management

Managing Directors (123), Executive Vice Presidents, Directors (17)

Rank and File Employees

Senior Vice Presidents (48), Vice Presidents (43)
Assistant Vice Presidents (8), Senior Associates (11)
Associates (11), Analysts (15), Interns (3)

• 3 internal relationship management advisors outside the firm’s traditional hierarchy
• 19 employees could not be determined

job classification appearing within the data. Employees are arranged into three groups, Lehman’s
executive committee at the top, the firm’s rank-and-file employees at the bottom, and, as the
name suggests, middle management between the two. The rationale for grouping the company’s employees in this way rests on the fiercely hierarchical structure of the organization itself. The fifteen-member executive committee was comprised of Managing Directors appointed to that body by the firm’s Chief Executive Officer with the consent of Lehman’s Board of Directors. The executive committee served as the site of strategic decision making and was ultimately responsible for defining the firm’s goals and business plan. While it is unlikely that the Managing Directors that constitute this simplified hierarchy’s middle tier would have considered themselves “middle managers” in the conventional sense, I apply the label “middle management” for descriptive convenience and use three criteria to distinguish them from those above and below. First, those who occupy the middle level had P&L responsibility for some part of the business or held business unit oversight if they presided over a non-revenue generating division. Second, those in the middle tier enjoyed workflow autonomy, which is to say that they were able to direct how the work they did, or supervised, got done. Finally, notwithstanding these first two criteria, those situated in the middle of the hierarchy were not members of the executive committee and so were excluded from the formal company-wide decision-making processes that took place at the top and rippled downward through the firm. Employees that were not executive committee members and did not meet both of the other criteria above are considered junior employees among the company’s rank-and-file. As the criteria indicate, these are mutually exclusive groups, such that no employee may be classified as a member of two groups simultaneously, though, as we will see, people regularly move between groups as they are promoted, demoted, or reassigned. All three of the groups were quite monolithic in terms of a common consensus about their shared meanings and employees within each layer policed their
own peer group in multiple ways. Importantly, these patterns of meaning making rarely appear directly, but instead arise when the groups are forced to put their shared meanings into practice and decide how something ought to be done. While the evidence of relative consensus differs between the groups, just as the number of collective decisions confronting each group also differs, the data reveal increasing intragroup homogeneity as the organizational crisis deepens. Not only did the existence of strong group consensus along these hierarchical fault lines emerge during data analysis for this project, the bankruptcy examiner recently confirmed in a 2019 interview that these same patterns of understanding likewise surfaced during the court’s original investigation of the bankruptcy as well.12

In this project, I supplement the work of the bankruptcy examiner with original social scientific treatments of the Lehman Brothers email dataset, introducing a coding scheme sensitive to subjects’ perceptions (Carley 1993) and not just the financial consequences of employee conduct. This project centers the locally situated interactions of organizational actors in institutionally embedded relationships to examine how employees on the inside of Lehman Brothers made sense of the firm’s decline in order to understand how an organizational culture engrossed in extolling the acumen and expertise of its employees explained and accommodated for the organization’s failure.

I began this ancillary coding stage by identifying the broad substantive themes within the data (Fereday and Muir-Cochrane 2006). The most promising of these themes was that of “efficiency,” which both features prominently in the bankruptcy examiner’s account and is the foremost result of an NVivo 12 stem frequency query when controlling for articles (i.e the, an) as

well as all previously used search terms. These themes, especially “efficiency” and in particular
how decisions about what is or is not efficient were made, informed an iterative thematic coding
regime (Chambliss and Schutt 2012, Creswell 2007, 2003), under which I applied nonexclusive
categorical codes based on the content of each email (Charmaz 2017, Corbin and Strauss 1990). I
simultaneously organized the emails by date and tracked those involved as sender and
recipient(s) in each exchange in order to locate the data within the prevailing historical context as
well as the extra-local environment of the global banking industry (Burawoy 1998). I utilized
hierarchical coding when “nesting” codes better captured empirical nuance without
compromising the analytical reliability of established coding categories (Thomas 2006).

The bankruptcy examiner’s report opens by counseling, “There are many reasons
Lehman failed, and the responsibility is shared,” (Valukas 2010: 2). Still, with all of the many
reasons for Lehman’s failure and all of the duly shared responsibility, one particular facet
emerges repeatedly throughout the examiner’s account: market efficiency. The bankruptcy
examiner bemoans management’s “implementation of an aggressive countercyclical business
strategy,” deriding executives for eschewing the principles of efficiency (Valukas 2010: 45).
Even designating this strategy “countercyclical” suggests that the market has some natural
rhythm, which if ignored risks inducing inefficiency. True to his preamble, the bankruptcy
examiner seized upon opportunities to divvy up the shared responsibility for Lehman’s undoing.
In testimony before Congress he opined, “The SEC’s mission – clearly stated on its own website
– is “to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital
formation.” The SEC’s role was not to simply absorb and acquiesce to Lehman’s decisions; the
SEC’s role was to supervise and regulate to protect investors and the market,” (Government
Publishing Office 111-124). The examiner continued later to explain, “I found no evidence to suggest that Lehman withheld any information requested by any agency. But it is my conclusion that the government simply acquiesced to the information it was given; it took no regulatory action,” (Government Publishing Office 111-124). Ultimately, the examiner’s report concludes, “while certain of Lehman’s risk decisions can be described in retrospect as poor judgment, they were within the business judgment standard,” (Valukas 2010: 22). It is revealing that the bankruptcy examiner seemed just as interested in whether or not Lehman’s business decisions were efficient, as he was in whether or not they were legal. This insight provided a principal point of departure from which to mobilize the existing data through new social scientific coding protocol attentive to not only what is deemed efficient, but more importantly, who gets to decide what is efficient as well as how these determinations are made in concert and conflict with others across the organization.

**Organizational Positionality: Same Person, Different Position, Different Priorities**

Organizational culture and organizational structure are interconnected. They are reflectively reconstituted through the constant interactions of those within organizations. That is, they are mutually dependent and evolve in tandem, as people within an organization deploy cultural understandings to legitimize both new and existing structural patterns, while organizational structure influences which cultural understandings are deemed appropriate and available in the given organizational setting. This gives rise to a view of organizations as ongoing and negotiated processes rather than static, concrete entities. Studying organizations during periods of turmoil when internal instability is likely to result in myriad instantiations of the organizational process illuminates the relationship between organizational culture and organizational structure.
People experience and identify the needs of an organization differently based on their status and location within the organization, which I refer to as “organizational positionality.” That is, organizational groups leverage available cultural resources differently based upon how they are situated within the structure of the organization. This organizational positionality influences which interpretive strategies are used to make sense of events, as organizational structure shapes the very extent to which internal actors perceive events and, thus, affects the meanings that organizational events have for them. Following an employee through different positions across different status levels lays plain the way organizational positionality operates.

In the exchange that follows, Ken Umezaki, a managing director of Fixed Income Business Strategy at the time, consults his middle management peers about how best to handle third quarter incentive compensation penalties for those employees who failed to meet their targets, noting that the Fixed Income Division as a whole was “over by $3.7 billion.” Umezaki continues by suggesting that they simply enforce existing policy and after receiving encouragement from his colleague, boasts that he “got $8 billion from the firm.” In other words, he received approval from the executive committee to increase the size of the Fixed Income Division balance sheet by $8 billion. Therefore, the Fixed Income Division was, in reality, nearly $12 billion off its quarterly target before Umezaki got approval to inflate the balance sheet, effectively shielding many Fixed Income employees from being penalized, at the expense of drastically increasing the amount of risk borne by the firm. Umezaki’s priority here appears to be advocating for Fixed Income Division employees and sheltering them from adverse consequences, even while disregarding the risks imposed upon the company as a whole.
Umezaki’s attitude changes considerably after he is offered the position of Chief Risk Officer and potentially a seat on the executive committee. In this interaction, nearly a year later, Umezaki is more concerned with the “team” and “the firm” in its entirety than he previously seemed. Rather than “fighting a good fight” for the employees of one particular division against the interests of another, Umezaki wants to help Lehman get its “mojo” back. While a year prior Umezaki could have been accused of being adversarial and surreptitious, with his elevation to the executive committee imminent he is more deferential, even bordering on obsequious at times.
Apart from the monumentally bad timing, as Lehman would go bankrupt only five days later, the second email reveals a further piece of irony in the way Umezaki characterizes Lehman’s risk appetite. Umezaki claims, “The history of ‘end arounds’ on risk decisions and process at the firm level is a major concern for me,” and yet less than a year prior Umezaki was, himself, utilizing “end arounds” to inflate the Fixed Income Division’s balance sheet in order to protect employee bonuses. As Umezaki’s organizational positionality changes so too does his orientation to risk and he acts in ways he perceives to be appropriate for each of his positions in the firm.

Figure 8. Ken Umezaki appointed as Chief Risk Officer

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From: Umezaki, Kentaro
Sent: 10 September 2008 14:46
To: McDade, Bart
Subject: Questions

...My basic assessment is: A. I want to keep doing investment management from my long term career perspective;
B. I'm having a hard time reconciling that with the fact that we are selling 50% + of IMD; Net, net: I'm emotionally not prepared at this time to go with IMD;
Basically more clarity on my questions below as it relates to the risk role will help me sort this out really fast;
C. I want to participate in LEH getting it's "mojo" back regardless of my role;
D. I love the firm and the team that is being "reassembled";
E. I feel I can do a "good" job at what you are asking around risk, IF the role has real authority (see below);
F. You don't know how much I truly appreciate the opportunity to work in a senior capacity for you and the firm.

With that, here are the q's: I know there's a lot, but I assume you expected that :)) Let me know how best to follow up.
Organizational Crisis: Enacting the Culture of Exceptionalism

While it is well documented that organizational failures can take place alongside cultural collapse and disintegration (Fine and Hallett 2014, Weick 2010, Hallett 2003, Weick 1993), failures can also yield a unifying effect, whereby organizational constituents rally behind a single organizational culture when confronted with an external threat. Yet, how this single culture is interpreted by discrete groups within the organization, the ways they modify existing meanings to meet their needs, and, importantly, how they enact them are all informed and dependent upon their relationship to various organizational structures, that is: their organizational positionality.

Rather than delivering the organization from crisis, this can lead to internal disagreements about
which courses of action are appropriate (e.g. efficient) or how things “ought to be done,” as the very organizational structures that color decision making are recast by competing organizational narratives. In this case, separate internal groups use the same cultural resources and language in the service of different ends, creating confusion about organizational priorities and compounding the existing crisis. That is, various intra-organizational groups can all lay claim to the same organizational culture, but do so in order to justify competing courses of action. Such was the case with Lehman Brothers.

The scholarly appraisals of organizational crises discussed above, such as the revitalization of Nissan (Kotter and Heskett 1992), the Mann Gulch Fire (Weick 1993), the Plainfield Tornado (Fine and Hallett 2014), and the failure of Arthur Andersen (Hallett 2003), illustrate how organizational culture can change, fragment into multiple idiocultures, or collapse entirely during and in the aftermath of a crisis, spawning conflicting accounts of the crisis as well as rival opinions about who should address it. This was not the case with Lehman, however. Lehman Brothers’ culture did not disintegrate during the firm’s downfall. Unlike the organizational crises previously studied, there is scant evidence that Lehman splintered into warring factions, each guided by a distinct but familiar idioculture hewn from the formerly uniform norms and customs of the broader firm. By contrast, Lehman collapsed inward on itself, unified by the same organizational culture and united around a single organizational mythology.

Lehman’s mythology was a familiar one, especially to those on Wall Street, as it was no different than the universally embraced tenet around which the whole industry was, itself, organized: meritocracy. At its core, Lehman’s organizational culture, its corporate mythology, was characterized by the belief that there was something exceptional about Lehman Brothers and
the people who worked there and, furthermore, that this quality was deserved, having been earned as a result of talent and ability. Those at Lehman Brothers often touted the firm’s history and previous accomplishments as well as their own personal successes in order to account for how such exceptional merit became and remained warranted.

Previous research demonstrates how market logics came to dominate financial thinking and reshape the American corporation (Fligstein and Shin 2007, Fligstein 1990, Roy 1997). Tracing the changing contours of the American economy from the early nineteen-eighties onward, Davis (2009: 7) extends this examination into other social settings across all facets of everyday life, including employment and the labor market, illustrating how the “disruptions that accompany rapid market expansion provoke changed ways of thinking about social relations.” Recent scholarship shows how talent is socially constructed and institutionalized in ways that favor some traits over others, allowing elite groups to extract structural advantages that perpetuate their unearned privilege (Mijs 2020). Assumptions about the moral deservingness of those to whom talent is attributed have themselves become an institutional force that is mediated through the day-to-day interactions of formal organizations like Lehman Brothers.

Though Lehman employees shared the same convictions concerning talent, which served as the firm’s cultural cornerstone, the way that employees modified these meanings and, perhaps more importantly, how groups of employees engaged and enacted these meanings in practice were different for various internal segments of the company. Lehman was an echo chamber within which a giant game of “telephone” was underway. Nowhere did the “wires get crossed” more than between the hierarchical levels of the organizational chart. The executive committee, middle managers, and junior rank and file repeated the same message using the specialized
financial vocabulary that indicated mastery of a common manufactured and complex professional expertise, but the ends to which this effort was directed were quite different for each group. For example, what “efficiency” meant and what was considered “efficient” by the three contingents were informed by each group’s relationship to the history of the firm’s cultural narrative. Several of those on the executive committee had been Lehman employees since before the firm broke away from American Express in 1994. Even more were employed by the time the firm weathered the 1998 Russian financial crisis. In contrast, few middle managers and almost none of the rank and file had been involved in Lehman’s past trials and triumphs. A brief timeline of the relevant history of Lehman Brothers is presented in Figure 9. The organizational structure of professional networks and personal employment histories, then, both enabled and constrained the collective memories of each hierarchical group throughout the period of crisis. Consequently, interpretations of the unfolding crisis by each group were read through the shared knowledge and experiences to which they had access.

Lehman’s collapse did not cause its organizational culture to disintegrate. If anything, the crisis led to employees clinging even more closely to Lehman’s existing organizational identity, reasserting the beliefs, rules, and norms that they perceived to be underpinning the whole endeavor. The tight unity that this produced brought with it new tensions, however, as conflicts and confusion emerged concerning how to respond to organizational challenges even though the various layers of the organization’s hierarchy shared a common explanation of the crisis. Organizational groups leverage available cultural resources differently based upon how they are situated within the structure of the organization, but they also combine these with modified and adapted cultural strategies drawn from existing repertoires accumulated across diverse
organizational histories and personal experiences, especially those perceived to have been successful in some earlier context (Dorado 2013, Hallett 2003). As a consequence, shared cultural resources often shape organizational life in inconsistent and unexpected ways when imported from one context and reinterpreted through interaction with one’s peers in another (Haedicke 2012). Previous scholarship documents how different internal groups develop and promote competing cultural explanations to legitimize different organizational forms (Marquis...
and Lounsbury 2007, Dobbin and Zorn 2005, Lounsbury 2002). This project endeavors to reveal how different groups at Lehman Brothers adhered to a shared culture while plying this common frame of reference to advance opposing organizational priorities in order to demonstrate how it is possible for organizational culture to survive the complete collapse of the organization from which it emerged.

When institutional logics are invoked to legitimize organizational forms and behaviors, they are indelibly altered in the process of these interactions (Owen-Smith 2011, Hallett 2010). Logics, as well as the organizational practices they inform and by which they are composed, are, thus, greater than the sum of their constituent parts (Hallett 2003). As people move through organizations by entering and exiting, being promoted, or reassigned their organizational positionality necessarily changes. They learn, modify, and adapt new interpretive strategies as a result of their movement through organizations, which they retain and continue to adapt in concert with others to meet the new contingencies posed by different organizational settings. They find new uses for existing institutional logics and refashion these logics in novel and unexpected ways when they set about doing things together. Thus, the interpretive strategies used to make sense of events are themselves conditioned by organizationally situated interactions and the meanings that actions have for people where and when they occur. As this suggests, Lehman’s executives, middle managers, and the junior rank and file leveraged a shared cultural orientation to promote different organizational priorities based on how they were situated within Lehman Brothers as the crisis unfolded. We will consider each group in turn.
CHAPTEr TWO
THE EXECUTIVE COMMITTEE

The position of those on the executive committee was that Lehman’s “counter-cyclical” strategy was intentional and that the situation was well under control. They explained as much to the Board of Directors in March 2007. Minutes from that meeting disclose that members of the executive committee were under no illusion about the state of the market, characterizing the situation as a “distressed environment.” They even anticipated a “fallout” in the housing market, which would cause some firms to fail, leading to reduced competition in the industry. However, the executive committee fully expected these obstacles to yield opportunities for growth just as they had during the 1998 Russian financial crisis. The message was clear. Present troubles provided potential opportunities for those unafraid of pursuing them. Lehman had a history of exploiting such opportunities, catapulting itself into position as the fourth largest investment bank on Wall Street behind the strength of its spectacular successes in the late 1990s and early 2000s. This time would be no different.

The minutes of the January 2008 Board of Directors meeting echo these sentiments. The official record of that meeting opens with the pronouncement, emblazoned in bold, that “the current environment presents a unique long-term growth opportunity for the Firm.” There can be little doubt that Lehman executives thought their current situation akin to the previous opportunities they had leveraged to “improve our competitive position” and “generate superior returns.” The summary of this meeting even includes a section describing “The Firm’s
Performance During Last Downturn.” This section recounts the financial achievements and industry accolades Lehman accumulated during that period and attributes them to management’s “counter-cyclical growth strategy.”

Figure 10. March ’07 Board of Directors Meeting Notes

Confidential Presentation to:

**Board of Directors**

Update on Lehman Brothers’ Subprime Mortgage Origination Business

March 20, 2007

Executive Summary

- Subprime mortgage business has been attractive market for Lehman Brothers
  - 30% plus industry growth with attractive margins 2001-06
  - Vertically integrated business model enables us to achieve high level of cross-cycle profitability
  - Significant part of a broader-based mortgage business
- Current distressed environment provides substantial opportunities, as in late 1990’s
  - Post-fallout, competition will be reduced
  - Opportunity to continue to add high quality personnel and platforms
  - Important component of broad-based mortgage origination franchise

These reports to Lehman’s Board of Directors make it clear that the executive committee viewed the financial market’s instability as an opportunity and aimed to seize on it. Lest the Board confuse Lehman’s current circumstances with coincidence, these meetings served to clarify for them the correct message. Lehman’s counter-cyclical measures were calculated and
deliberate. The strategy had worked before. And the executive committee both understood the ongoing market turmoil and had command of the situation. Moreover, references in both meetings to “high quality personnel” and “investing in talent” betray the sense that Lehman, and its employees, had earned its expanded business franchise by identifying growth opportunities too often overlooked by competitors. The Firm’s success was not a matter of happenstance, but due to the talent and tenacity of its employees, who stood undaunted at the call to do it again.

Figure 11. January ’08 Board of Directors Meeting Notes

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Confidential Presentation to:

**Board of Directors**

2008 Financial Plan

January 29, 2008

**Market Developments and Competitive Dynamics**

*The current environment presents a unique long-term growth opportunity for the Firm*

- The Firm’s competitors, with the notable exceptions of Goldman Sachs and JPMorgan Chase, have sustained large losses, weakening their competitive position
- Despite recent capital raising efforts, most competitors are still capital-constrained; more likely to retrench to the core of their franchises than to invest in growth
- Senior management changes (e.g., BofA, Bear Stearns, Citigroup, Merrill Lynch, Morgan Stanley and UBS), causing organizational turmoil
- Significant pool of talent will become available, as many of our competitors’ top performers become disillusioned with their firms’ strategies and risk management
The situation changed little following the coerced sale of Lehman’s competitor, Bear Stearns, to JPMorgan Chase. Following major losses and a credit rating downgrade in the fourth quarter of 2007, Bear Stearns found itself in immediate need of liquidity and in March 2008 turned to the Federal Reserve Bank of New York for help. The Federal Reserve agreed to purchase $30 billion of Bear Stearns’ toxic assets on the condition that Bear consent to be purchased by JPMorgan Chase for $2 dollars per share, representing a discount of over 90 percent from what its market value had been just two days before. The price was later raised to $10 per share, but this was still well below even one percent of what the company’s value had
been only a year earlier. On March 16th, 2008, JPMorgan announced its acquisition of Bear Stearns in what many characterized as a “sweetheart deal” arranged by Secretary of the Treasury, Hank Paulson, and underwritten by the Federal Reserve. This shock to the financial system did little to shake the resolve of Lehman’s executives, however. After all, Bear Stearns was not the storied Lehman Brothers. Roger Nagioff, Lehman’s short-lived co-Chief Operating Officer, and his team made this outlook abundantly clear as he prepared to present before his peers on the executive committee. The spirit of Nagioff’s presentation was inescapable. Competitor investment banks were racked with instability at the top, with Bear Stearns even being helmed by an “absentee CEO pothead,” whereas Lehman’s leadership was calculating and steadfast against the ebbs and flows of an uncertain financial market.

Figure 12. Nagioff’s Presentation Prep

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From: Walsh, Mark  
Sent: 03 November 2007 00:59  
To: Nagioff, Roger  
Subject: Tuesday presentation for dick and joe

Roger a rough draft went out by overnight to you tonight.. A little later than ideal as it was a joint effort by us and the risk guys and it took time joining views as well as bringing in global pieces… Separately the financial world trembles… prince at citi gone!!! Oneal at merril gone!!! Cayne at bear reported to be an absentee ceo pothead by wsj and probably next to go…I am around all weekend. Mark

Nagioff was not alone in his view of Lehman’s leadership constituting a bulwark against foreboding tides. Without exception, his colleagues on the executive committee considered
themselves a remarkable team capable of traversing any crisis, not the least among them being Chairman and Chief Executive Officer, Dick Fuld.

In the wake of Bear’s failure and government-facilitated sale, Fuld contacted Warren Buffett on March 28th, encouraging him to invest in Lehman Brothers. Fuld hoped that an investment by the world’s most well known investor would improve the market’s perception of Lehman and serve to further separate it from the beleaguered reputation of Bear Stearns. To Fuld, Buffett and Lehman Brothers were the perfect pairing. Both had consistently defied the odds and found value where others were afraid to venture. Buffett’s own philosophy of “be fearful when others are greedy and get greedy when others are fearful” paralleled Lehman’s “counter-cyclical strategy.” A public declaration of confidence from Warren Buffett would go a long way toward helping Lehman Brothers replicate its past successes. On the day of their conversation, Fuld sent a follow-up letter by courier that offered the assurance, “Our firm is poised to return to greatness, and many of Bear’s clients are coming our way.” Fuld ends with a resounding endorsement of Lehman’s executive committee, concluding the letter:

In summary, let me again thank you for agreeing to meet with us. I believe that you’ve been presented with a unique investment opportunity, and one that is sure to be successful. Your hallmark is to invest in top-notch management teams, and I humbly submit that we’ve demonstrated that we can navigate difficult waters.

Fuld thought he was making Buffett an offer that he could not possibly refuse. Lehman’s management team was simply too good for anyone, including Buffett, to question. After all, Lehman’s executives had successfully negotiated multiple tumultuous markets in the past. So confident was Fuld, in fact, that he directed his administrative staff to draft a detailed announcement of Lehman’s new partnership with Warren Buffett the day before their meeting even took place.
Fuld’s “Dear Colleague” letter refines the messages previously delivered to the Board of Directors, defending the company’s “counter-cyclical” strategy and declaring at the outset that Lehman “is well positioned to deliver industry-leading growth and profitability across all parts of the market cycle.” Fuld acknowledges the fragile condition of the market, stipulating that it is, in part, driven by “often inaccurate market rumors,” before trumpeting Buffett’s pending investment as “an enormous tribute” to Lehman’s strength and growth. The announcement, written the day before Fuld would speak with Buffett, continues, “the world’s most respected investor, has decided to invest $3.5 billion in our Firm.” Unfortunately, Fuld’s decision to have such a letter drafted was premature, as the three and a half billion-dollar investment from Warren Buffett never materialized. However, the letter itself is telling, as the remainder of the draft resonates the very same assertiveness and self-assurance vocalized by other executives at Lehman Brothers.

Fuld’s vague description of how the anticipated capital from Buffett will be used does not indicate any intention of altering the firm’s investment strategy whatsoever. The problem is simply not Lehman Brothers, but the “confidence of investors.” Therefore, leadership need not change tack. All that is required of them is to signal the existing strength of the firm. One method of accomplishing this is for the executive committee to, as the saying goes, put their money where their mouth is. Subject to the committee’s approval, Fuld promises, “our entire Executive Committee has also committed to receiving its 2008 incentive compensation in this same form.” Of course, the other way Fuld seeks to signal the Firm’s existing strength is by associating Lehman with Warren Buffett and distancing it from Bear Stearns and other failed investment
banks of that ilk. Citing Buffett’s record of success, Fuld plainly and unabashedly places Lehman in the esteemed company of Coca Cola and GEICO.

It may be tempting to dismiss Fuld’s unwavering confidence in his firm as bluster for the benefit of an external audience or a relatively withdrawn Board of Directors. Yet, this same rosy messaging was being communicated down to middle management and the rank and file employees below them. Moreover, the other members of the executive committee shared Fuld’s confidence that the company’s employees were fully capable of repeating Lehman’s past accomplishments.

Figure 13. The “Dear Colleague” Letter

From: Lyons, Timothy
Sent: 27 March 2008 21:39
To: Freidheim, Scott
Subject: memo.

Richard S. Fuld
Chairman and Chief Executive Officer

March 28, 2008

Dear Colleague,

Over the past decade, we have built a premier global investment bank that is well positioned to deliver industry-leading growth and profitability across all parts of the market cycle. In building this franchise, we have made significant investments in each of our divisions and regions to build our capabilities so that we can deliver the superior products to our clients and capture share in the most attractive markets around the world.
The current market environment has obviously created significant challenges for all players in our industry. Uncertainty about the value of financial assets, combined with incomplete information and often inaccurate market rumors, has reduced the confidence of both debt and equity investors. So it is an enormous tribute to the strength and growth of our franchise that Warren Buffett, the world's most respected investor, has decided to invest $3.5 billion in our Firm through Berkshire Hathaway. This investment will be made in the form of a perpetual non-cumulative preferred security with a coupon of 7.5% and a conversion price that is a 40% premium to our current stock price. The security is convertible into a 16% stake at the conversion price of $54 per share and is not callable for five years.

This strategic stake will provide us with additional capital to take advantage of the many attractive opportunities available to us in the marketplace, and at the same time, will increase the confidence of market participants in the strength of our Firm.

[[As a further testament to our confidence in our Firm, our entire Executive Committee has also committed to receiving its entire 2008 incentive compensation in this same form of equity [at year end].]]

Over the years, Warren Buffett has distinguished himself as the world's most insightful and successful investor. Through Berkshire Hathaway, he has delivered annual shareholder returns of more than [___%], by investing in strong, high-performing, growth companies such as Coca Cola, American Express, Wells Fargo, General Re and GEICO.

I am thrilled to welcome Warren Buffett and Berkshire Hathaway as partners with all of us as shareholders in the Firm and look forward to working together to capture the extraordinary opportunities that lie ahead of us.

When confronted with questions about the possibility of Lehman being downgraded by credit rating agencies as well as the effects of such an event, newly minted Chief Financial Officer, Ian Lowitt’s, response could be fittingly described as indifferent. Though Lowitt is not
entirely dismissive, as he does furnish an answer in the exchange below, he appears altogether unconcerned that a downgrade “will affect lines and willingness of counterparties” to lend to Lehman Brothers, concluding, “We have operated at BBB+ before.”

Credit rating agencies evaluate corporate debt using a scale ranging from AAA to D, which indicates default. At the time of the above exchange, most of Lehman Brothers’ debt was rated as A1 (A+), with some debt instruments even rising to the Aa3 (AA-) level, both of which indicate highly rated credit. A corporation’s credit worthiness, as illustrated by its rating, is important not only because it influences the interest rate that the company will pay when it issues bonds, but also because it generally governs the amount of collateral property that lenders will demand the company pledge in order to get and keep a loan. To illustrate, if Lehman’s credit rating fell one rung from A1 (A+) to A2 (A-), Lowitt reports the firm would be forced to post an additional $700 million of collateral to secure existing lines of credit. Less than two weeks after this exchange, Lehman Brothers was, indeed, downgraded.

Figure 14. “We have operated at BBB+ before”

From: Felder, Eric  
Sent: 5 July 2008 14:55  
To: Lowitt, Ian; Tonucci, Paolo  
Subject:  

How much incremental collateral do we have to post if we go to a2/a-? Are there any other implications of getting downgraded?
Lowitt’s casual response would be startling, were it not so precisely aligned with what others on the executive committee were saying. Lehman had spurned Wall Street’s conventional wisdom before to great avail, doubling-down on positions whose value seemed to be in free fall. Lehman’s hallmark, in fact, was its “counter-cyclical” strategy. When Lehman’s credit rating was in jeopardy of a manifold downgrade during the one-two-punch of 1998’s Russian financial crisis followed by the collapse of hedge fund Long-Term Capital Management, Lehman ended the year with stable, if not slightly increased, revenue and the next year their stock price doubled. Sharply declining crude oil prices and economic instability in Southeast Asia during 1997 had depleted Russia’s foreign exchange reserves. In the midst of growing civil unrest internally, the Russian government devalued the ruble and defaulted on its debt in August 1998. On Wall Street, rumors abounded about which firms had the greatest exposure to the, now worthless, Russian debt. As whispers circulated, some wondered aloud whether the Russian financial crisis would prove the largely untested Lehman Brothers’ ruin. In fact, Lehman did very little business in
Russia because CEO Dick Fuld considered the whole country to be “the world’s biggest [expletive] crime syndicate.” On the other hand, Long-Term Capital Management relied on “emerging market” debt, in particular Russian bonds, as the backbone of their convergence arbitrage strategy. LTCM had been founded by Nobel Prize-winning economists Robert Merton and Myron Scholes and counted nearly every Wall Street bank as an investor, except Lehman Brothers. Within one month of Russia’s default, the value of LTCM was cut in half and investors began heading for the exits, as Wall Street reeled. Not only was Lehman Brothers unscathed, they seized on their good fortune to buy over one billion dollars of call options on 10-year US Treasuries, which they eventually sold for a profit many times over. On conference calls at the time, Fuld heralded employees’ ingenuity and urged them to “bleed Lehman green.” The executive committee’s commitment to a “counter-cyclical” strategy and its faith in the elite talent and tenacity of employees were immutable. So much so, in fact, that after barely one month in his new role, CFO Ian Lowitt had adapted and honed the talking points for his new position. So what if Lehman gets downgraded? They had operated under worse conditions before.

Lowitt’s decision to reference a far worse credit rating than the A2 (A-) grade originally mentioned in the query is significant, as it is evocative of the executive committee’s mood with respect to internal trepidation. Felder is simply inquiring about the not implausible possibility of a credit downgrade and the consequences that will accompany being knocked down one rung. He receives an answer from Lowitt along with the indirect reproof that Lehman has and, it is insinuated, would manage to survive being downgraded a full three levels to BBB+, which is only slightly above “junk bond” status. Lowitt’s tone communicates the executive committee’s position that it will not permit disquiet among staff, especially from one who should know better.
Felder, who will feature considerably later on, was a fourteen-year veteran of Lehman Brothers, having endured all of the company’s recent trials and achieving a position as a Managing Director of Credit Strategy for Global Fixed Income. Felder was not just another middle manager. He was senior management in his own right. He had been through the wars and knew all about Lehman’s penchant for bucking market trends. Now, to the dismay of the new CFO, he demurred.

The executive committee’s exacting standard of adherence to the well-established beliefs and practices they credited with the firm’s success was not reserved solely for middle management, nor even for more senior personnel like Felder. Within their own ranks as well, those on the executive committee demanded allegiance to the view that Lehman was exceptional. And they held one another accountable for the strength of their convictions that Lehman Brothers stood alone in its mastery of the financial markets, as in the exchange that follows.

**Doubts and Rejoinder: No Blinking**

In the late summer of 2007, Lowitt had yet to be made CFO and was serving as the co-Chief Administrative Officer for Finance. Filling the role of Chief Financial Officer was Chris O’Meara, who, in the wake of the nascent crisis in the subprime mortgage market, circulated a Wall Street Journal article that drew into question the wisdom of Lehman’s $22 billion acquisition of Archstone-Smith, an apartment building investment and management company. The recipients of O’Meara’s email were a veritable who’s who of financial decision makers at Lehman, including the future CFO from the foregoing discussion, Ian Lowitt, who began his rapid ascent into increasingly senior roles in 2006 after joining Lehman Brothers as a director in 1994. Appearing alongside him on the recipient list are Ed Grieb, Lehman’s Corporate Financial Controller since 1991; Treasurer Paolo Tonucci, a twelve-year company veteran; the cat-of-nine-
lives Dave Goldfarb, who had survived successive demotions from the positions of Chief Financial Officer and then Chief Administrative Officer, but somehow managed to keep his place on the executive committee in the invented and largely ceremonial role of Global Director of Strategic Partnerships; and the email’s eventual respondent Gerry Reilly, the longtime Global Product Portfolio Controller. All of whom, in fact, did “bleed Lehman green.”

O’Meara’s email belies the typical confidence characteristic of those on the executive committee. This was certainly not the first time Lehman had been the subject of negative press, but it clearly weighed on O’Meara enough to share it. The CFO’s late-night forwarding of such a critical article suggests that he was beginning to waver. Perhaps the firm’s aggressive strategy was finally keeping him up at night. Whatever the case, his email accommodates the possibility that “Lehman may be better off paying a $1.5 billion break-up fee” to back out of the Archstone deal, which would have been unfathomable to his peers on the executive committee. Lehman did not just give money away for nothing. Years earlier in 1998 when Wall Street’s most prominent CEOs organized a privately funded multibillion-dollar bailout of the hedge fund Long-Term Capital Management in order to avert a collapse of the equities market, Dick Fuld refused to “put in any goddamned money” and Lehman declined to assist with the bailout. Handouts, in any form, were not something Lehman did. It would succeed or fail on the merits of its employees, not compensatory payments enabling it to skirt the mistakes of others. As such, the source of O’Meara’s apprehension constitutes a far worse transgression.

Before summarizing the article’s position, O’Meara calls attention to its reference “to a Citi real estate investment trust analyst.” The suggestion, however implicit or indirect, that Citigroup might have discovered something overlooked by Lehman or, worse yet, that the
possibility exists for a Citigroup analyst’s talents to equal those found within Lehman Brothers was simply inexcusable. In the early morning hours not long after sending the email, O’Meara receives the two-word reply, “No blinking.”

Figure 15. “No blinking”

| From: O’Meara, Chris |
| Sent: 31 July 2007 22:24 |
| To: Goldfarb, David; Lowitt, Ian T; Reilly, Gerard; Tonucci, Paolo; Grieb, Edward |
| Subject: Commercial Real Estate Article |

| See article below on commercial mortgages [“Credit Crunch Takes Its Toll”]. Mentions LEH Archstone deal in next to last paragraph, in negative light. Refers to a Citi REIT analyst saying LEH may be better off paying a 1.5B break-up fee versus going fwd with deal, given how badly the CMBS debt mkt has sold off since the deal announcement. FYI. |

| From: Reilly, Gerard |
| Sent: 1 August 2007 2:29 |
| To: O’Meara, Chris |

| No blinking |

There was no place for second-guessing at Lehman Brothers, much less among the members of the executive committee. Ultimately, Lehman did finalize the deal to acquire Archstone on October 5, 2007, but O’Meara did not remain on the executive committee long enough to see it. Before the end of the summer he was quietly removed from the committee, demoted to Chief Risk Officer, and replaced by Lehman investment banking dynamo, Erin Callan.
The executive committee was firm in its commitment to the “counter-cyclical” strategy that brought the bank to prominence and resolute in its belief that it had the brightest minds on Wall Street at its disposal. Among them, Lehman’s leaders were convinced, was Erin Callan. When asked why he had hired an internal candidate without a background in accounting to serve as Chief Financial Officer, Dick Fuld told reports, “Lehman Brothers’ success depends in large part on leveraging our best people’s strengths and experiences,” (White 2007). Frankly, Callan’s pedigree rivaled any of her peers’ on the executive committee. The Harvard graduate had studied tax law at NYU and quickly gained a reputation as a rising star after joining the firm in 1995. This most recent promotion placed the 41-year-old among the top three women on Wall Street. She was the embodiment of Lehman’s meritocracy.

**Einhorn’s Critique and Callan’s Counter**

During her first two quarters in the role, Lehman reported sizable profits at a time when its competitors were losing money hand over fist. Despite these early successes, many on Wall Street were beginning to wonder how Lehman had seemingly plunged headlong into the crisis, yet remained unscathed. Internally, the cracks were already apparent, as Lehman prepared to report a nearly $3 billion loss in the second quarter of 2008. Even so, these losses were still not enough to unnerve the members of the executive committee. After all, some interim losses are not entirely unexpected when undertaking a counter-cyclical strategy. Still, as Lehman’s stock price continued to decline, the company’s executives became more and more convinced that someone wasn’t playing fairly. Eventually, their sights settled squarely on upstart, activist investor David Einhorn of Greenlight Capital. To this point, Einhorn was a one-hit-wonder after making hay by short selling Allied Capital well in advance of the public revelation that Allied
was essentially worthless. Now, he was making the rounds on television and at industry conferences, telling anyone willing to listen that Lehman was next. Callan was tasked with bringing this cheat to heel and on Friday, May 16 she called Einhorn after his latest disparaging remarks.

Callan, like the rest of Lehman’s executive committee, thought Einhorn was attempting to game the system. Not only did Einhorn have the gall to doubt Lehman’s management practices, he did so openly and in front of the media no less. At the time of their phone call, Lehman was still somewhat of a Wall Street darling, having so far avoided the massive losses suffered by many of its peers, at least publicly. Yet, its stock price remained in decline, keeping lockstep with other financial sector stocks as the whole industry traded lower. Einhorn had been short selling Lehman shares since at least July 2007, helping depress prices, and his considerable short position had already produced a decent return. Now, apparently unsatisfied with his present gains, he was vocally deriding Lehman Brothers. Einhorn stood to benefit mightily if Lehman’s stock price continued its slide, and his public criticisms seemed to make this eventuality all the more likely. Members of Lehman’s executive committee blamed Einhorn for their slumping stock price and the firm’s deteriorating financial condition.

Callan considered it her responsibility to convince Einhorn to refrain from casting further aspersions. What’s more, as Wall Street’s rising star and by this time the face of the firm, she had come to believe that she commanded sufficient influence to accomplish this. In the email exchange that follows, Callan expresses a desire to engage Einhorn in an open and honest dialogue to see if she can get him “more comfortable with Lehman Brothers.” She subsequently explains, “there has been good reason to trust that my counterparts were acting fairly.” Sadly, she
announces, “I come away from our conversation Friday and this e-mail below feeling you have been very disingenuous.” Callan claims to have contacted Einhorn in good faith, extending to him the benefit of the doubt, only to discover that he plans to discuss their conversation publicly and once more criticize Lehman Brothers in clear violation of her trust. She feels set up and is certain that Einhorn will “now cherry pick what you like out of the conversation to suit your thesis.” To Callan, Einhorn’s actions constitute a bait-and-switch. “As someone new in her seat” just learning how to fill the role of CFO, she worries she has fallen prey to Einhorn’s duplicity. Following this revelation, she no longer deigns to indulge Einhorn, stating “it does not seem prudent on my part to engage in any further conversations with you going forward.” She has her staff follow up on Einhorn’s open questions then cuts off communication.

Figure 16. David@GreenlightCapital.com to Erin Callan

From: David@GreenlightCapital.com
Sent: 19 May 2008 14:41
To: Callan, Erin

Erin,
You should know, that as of now I plan to discuss our conversation and my analysis of the 10-Q at the IRA Sohn conference on Wednesday. This is not a final decision, but I am working on my presentation.

I did feel that your answers were inadequate. I would like to give you every chance to clarify things before that speech and I’d like to send a few additional “fact checks.”

I am free all of today and parts of tomorrow. I’d like to finalize my work so that I can complete the presentation by the end of business tomorrow.

I really would like to get any clarifications you may have to offer.
From: Callan, Erin  
Sent: 19 May 2008 15:49  
To: David@GreenlightCapital.com

David,

As I mentioned on telephone, I come away from our conversation Friday and this e-mail below feeling you have been very disingenuous. As an investor, my goal was to have an open dialogue with you and help you get a better understanding of some of the facts. However, I can only feel that you set me up and you will now cherry pick what you like out of the conversation to suit your thesis. As I said, it is certainly a lesson learned for me as someone new in my seat. My objective has been to try to be proactive and open with investors and other constituents. In general, there has been good reason to trust that my counterparts were acting fairly and were using any conversation with me to further their views on owning Lehman stock (to the positive or negative).

As I committed to, I will follow up by tomorrow with the open questions you had. Unfortunately, it does not seem prudent on my part to engage in any further conversations with you going forward.

Whether or not Einhorn acted disingenuously, as Callan claims, is up for debate, though he certainly did not think he had (see Appendix A for his reply). Einhorn’s short position, on the other hand, as a matter of public record, is patently not in dispute, nor had he given Callan any indication that he would refrain from making further remarks in the future. In fact, during their exchange, he twice stresses his inclination to give Callan every opportunity to clarify Lehman’s position and, furthermore, appears willing to change his view given new information, noting, “This is not a final decision.” Callan, for her part, levels accusations of “cherry picking” before knowing exactly what he plans to say or even seeing his presentation. This exchange and Callan’s reaction to it makes Lehman’s explanation of the unfolding crisis abundantly clear:
Lehman was not to blame. Their troubles, whatever they might be, were entirely due to the misdeeds of someone else.

The executive committee was unable to fault the firm’s strategy, liquidity, or real estate exposure for its increasingly precarious position. Committee members did not see how policies that had worked so well before could possibly factor in their current dilemma. They instead held that Lehman had a perception problem, fueled largely by the allegations bandied about by short sellers like Einhorn. Lehman was a victim of market manipulation plain and simple. This outlook is illustrated in the amount of time Callan spent directly corresponding with Einhorn, which was inordinate for a CFO. Rather than spend time scrutinizing balance sheets or reviewing the firm’s risk calculus, Callan devoted time to engaging a relatively obscure hedge fund manager, including attempts at rebutting him publicly later on. Callan blamed Einhorn and opportunists like him for circulating market rumors that disadvantaged the firm and, moreover, she was far from alone in this view.

Appealing to SEC to Stop Einhorn’s Attacks

When it became apparent that Einhorn would not be accommodating, Callan began exploring legal remedies to his invective. Shortly after their exchange, an opportunity rather fortuitously presented itself in the form of an email from a “concerned client.” Callan forwarded the letter on to Beth Rudofker, who in turn passed it to her contacts at the SEC. Several of the elements included in Rudofker’s note are instructive. First, Lehman’s response in the Wall Street Journal to Einhorn’s “disruptive behavior” is incongruous with the tenor of such an appeal to the SEC. They claim that they “will not continue to refute Mr. Einhorn’s allegations,” and, yet, here they are refuting said allegations by lodging a complaint with a regulatory agency. The executive
committee seems manifestly unable to just disregard Einhorn, equating him with the root of their problems. Next, the language used by the concerned client in the included attachment is strikingly similar to the executive committee’s own rhetoric. The remark “the same occurred in 2002, 1991, and other periods of market disruption,” in particular, sounds as though it could have been lifted directly from Lehman memoranda. The juxtaposition between “honest and quiet investors” and “individuals of questionable integrity and motivation,” likewise, has a familiar ring. This could be coincidental, but the disclosure that Starr’s daughter works for Lehman Brothers introduces the possibility that similar talking points may have earlier been internally transmitted in response to rumblings within the rank and file, which is eminently plausible, as we will see in later chapters.

By far the most remarkable thing about this complaint to the SEC, however, is who sent it. Though Tom Russo, Lehman’s chief legal counsel, and Bari Wolfe, the firm’s director of regulatory affairs, are included on the email, they did not send it. The email instead comes from Beth Rudofker, head of internal audit. This ought to be a puzzling turn. As Lehman was preparing to announce a nearly $3 billion quarterly loss, their principal internal auditor was not poring over financial statements or reevaluating operational controls, but had been enlisted in a glorified witch-hunt by the Chief Financial Officer. Of course, as it turns out, this is not quite as puzzling as it ought to be. Those on the executive committee were not concerned by the firm’s risk calculus and attendant lack of liquidity, having convinced themselves that they had been in similar situations before. The only difference this time around was David Einhorn and the legion of short sellers eroding confidence in the firm, who had to be stopped. Notwithstanding the executive committee’s attitude concerning who was at fault for their faltering fortunes, there
persists the question of why the preceding grievance was not brought to the attention of the SEC by Russo or Wolfe, both of whom are included on the email and, as lawyers, were ostensibly better situated to do so. Yet, the choice of Rudofker as messenger was not without reason. She had had an ongoing relationship and almost daily interactions with the SEC investigators since they had taken up residence inside Lehman’s own offices shortly after the collapse of Bear Stearns some three months prior. Ironically enough, they had been tasked with inspecting Lehman’s financial records for exactly the kind of underhanded financial engineering Einhorn had been alleging.

Figure 17. Email to the SEC

From: Rudofker, Beth
Sent: 23 May 2008 15:54
To: Friedman, Israel [@sec.gov]; Shuler, Stephanie [@sec.gov]
Cc: Russo, Thomas A; Wolfe, Bari
Subject: LEH chatter and david einhorn

Stephanie and Israel,
I hope you are well. I phoned you earlier to review and pass on some recent rumor activity and information that is concerning to us:

1. We received the note below from a client with 30 years experience in the industry regarding the “disruptive behavior” of David Einhorn. Hopefully you’ve seen our quote to the WSJ in response to Einhorn’s misrepresentations:
“We will not continue to refute Mr. Einhorn’s allegations and accusations. Mr. Einhorn cherry-picks certain specific items from our quarterly filing and takes them out of context and distorts them to relay a false impression of the firm’s financial condition which suits him because of his short position in our stock. He also makes allegations that have no basis in fact with the same hope of achieving personal gain.”

From: Starr, Adam [@gulfsidemgt.com]
Sent: 23 May 2008 8:52
To: Callan, Erin
Subject: david einhorn

my name is adam starr and I am a prime brokerage client of lehman. from time to time my partnership, gulfside partners lp, has owned lehman stock. I should also note that my daughter is an employee of neuberger berman.

over close to thirty years in the business I have never witnessed more disruptive behavior than that displayed over the past year by david einhorn, william ackman, and others. they have also had valuable support from "shills" in the both the press and the sell side research community... times like these lead to an explosion of boutique firms that specialize in reports with a negative slant. the same occurred in 2002, 1991, and other periods of market disruption.

I think you are right to stop responding to every allegation. these people deserve no more attention than honest and quiet investors. what is particularly disturbing is that the sec would be very quick to crack down on an investor with a large long position who made public pronouncements that were unrealistic, exaggerated, and refuted by company management...

I support the more open policy that you and lehman have taken towards the investment community. it is a shame to see it abused by individuals of questionable integrity and motivation.

best,
Adam Starr

We appreciate your time in looking into these situations.
The executive committee’s preoccupation with Einhorn stemmed from their conviction that the ship was not sinking, but rather was under attack. They judged their course of action to be dispassionate and deliberate, and more importantly it had worked before. The only complication that stood to frustrate their strategy was the market manipulation brought on by unscrupulous short sellers. Still, with the enormous talents of their employees behind them, Lehman executives were convinced that this latest challenge was just the next difficulty they were already poised to overcome. An earlier email exchange between Fuld and Goldfard in the midst of similar negative rumors encapsulates this attitude.

Figure 18. “Will and skill always win”

<table>
<thead>
<tr>
<th>From: Fuld, Dick</th>
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<tbody>
<tr>
<td>Sent: 3 September 2007 21:26</td>
</tr>
<tr>
<td>To: Goldfarb, David</td>
</tr>
<tr>
<td>Subject: CITIC</td>
</tr>
</tbody>
</table>

I agree we need some help-but the Bros always wins!!

<table>
<thead>
<tr>
<th>From: Goldfarb, David</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sent: 3 September 2007 21:36</td>
</tr>
<tr>
<td>To: Fuld, Dick</td>
</tr>
</tbody>
</table>

Absolutely, will and skill always win, and that be us!!!!

<table>
<thead>
<tr>
<th>From: Fuld, Dick</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sent: 4 September 2007 2:04</td>
</tr>
<tr>
<td>To: Goldfarb, David</td>
</tr>
</tbody>
</table>

Got it + so do u

LBEX-DOCID 997624
Members of the executive committee had no illusions about the difficulties confronting them. Negotiating the existing market turmoil would not be easy. It would take hard work and an all-hands-on-deck approach, but “the Bros always wins.” Their outlook was such that instability corresponded with opportunity, and they planned to reap windfalls on this occasion, as they had several times before. The talent and tenacity of those at Lehman, they thought, would allow them to exploit the developing financial crisis to their considerable advantage. Lehman had time and again proven its exceptional prowess in navigating just these types of events. This time would be no different. “Will and skill always win” and would once more carry the day.
CHAPTER THREE
MIDDLE MANAGEMENT

Lehman’s middle management occupied a very different place within the firm’s organizational structure. They were excluded from executive committee meetings and were rarely, if ever, asked to attend presentations before the Board of Directors. Though they shared the executives’ optimistic outlook on the prospects of the firm in turbulent times, middle management was less concerned that outsiders would see weaknesses in Lehman Brothers, and more concerned that Lehman executives act in order to secure the continued prosperity of the firm and its employees. In fact, middle management had long sought to alter the firm’s capital structure by issuing more equity. In August 2008, they may not have been keen on a prospective deal with Korea Development Bank specifically, but at least it seemed as if leadership was taking actionable steps toward raising capital.

By June 2008, Eric Felder had already begun marshaling his team’s talents toward tangible action. Felder, a senior manager in Lehman’s Fixed Income Division, recognizes that Lehman’s second quarter earnings report will be damaging and instructs his team to use an internal company chat room to align their trading levels in advance of the announcement. In fact, a week later Lehman would report a massive loss, its first quarterly loss since going public in 1994. The firm’s treasurer, Paolo Tonucci, is included on the chat room invitation probably because Felder was hoping to garner support among the executive committee and suspected that Tonucci would be the member most sympathetic to his proposal. At first, Tonucci voices
optimism at reports “that things going well,” as a possible deal with Korea Development Bank was beginning to materialize. However, the prospect of a Korea deal is not enough to placate Felder, who wants to have a “plan b” ready. Stressing that the lack of a viable backup plan is not an option, he says, “We need to have a plan b. If we report the loss without an equity raise it will not end well.” Tonucci reports that he is “pushing as hard as I can,” but insists, “there is a high level of optimism that the Korea deal will work out.”

Figure 19. Felder and Tonucci

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From: Genirs, Joan
Sent: 3 June 2008 6:39
To: Kilfeather, Michael; Maggio, Brian; Bugliari, Anthony; Wait; Christian; Merli, James; Conetta, Christopher; Lista, William; Crowley, Daniel; Pope, Daron; Teng, Fredric; Quinn, Jason; Davis, Kieran; Mayes, Simon; Engel, Steven; Mayes, Simon; Fung, Eugene; Assi, Georges; Degen, Paul; Duenas, Peter; Whalen, Patrick; Bouzouba, Rachid; Nakadate, Takafumi; Patel, Manish; Hogan, Canice; Tonucci, Paolo
Cc: Felder, Eric
Subject: IMPORTANT: Lehman_Global_Risk on Mindalign

**REMEMBER**
Given the recent spike in Lehman volatility, Eric is asking for everyone on this email to actively use the Lehman_Global_Risk chat room in Mindalign to communicate amongst each other re: Lehman risk at (sic) it relates to headlines, chatter, and trading levels - especially as we approach 2Q earnings.

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From: Felder, Eric
Sent: 3 June 2008 6:44
To: (ut supra)

If everyone could log on it would be great….the more real time information we are sharing the better….thanks in advance
From: Tonucci, Paolo  
Sent: 3 June 2008  7:02  
To: Felder, Eric

I am now successfully logged in...just to show that even the most technically challenged can do it.

Heard from Ian that things going well, but they wanted to get into detailed due diligence. They start tomorrow, and are due to finish Friday. All things going well we wrap up details next week.

We need it....hoping will be $5 bn. Loss for the quarter keeps increasing so more important than ever.

From: Felder, Eric  
Sent: 3 June 2008  7:08  
To: Tonucci, Paolo

We need to make sure we are fully ready for plan b just in case

From: Tonucci, Paolo  
Sent: 3 June 2008  7:09  
To: Felder, Eric

I know....and that is not looking so certain. We met with a due diligence team for Hank Greenberg but that seems to be moving slowly.

Will check with Erin to see if she has heard more.

From: Felder, Eric  
Sent: 3 June 2008  7:11  
To: Tonucci, Paolo

It's not an *option*. We need to have a plan b. If we report the loss without an equity raise it will not end well
The executive committee was hopeful that a deal with Korea Development Bank could be negotiated on more favorable terms than they could achieve by selling shares on the open market. In addition, most on the committee were not entirely convinced that the bank needed to issue equity in order to raise capital. If, indeed, they did decide to issue equity, members of the executive committee preferred the quieter approach of cultivating a single strategic partner, like Warren Buffett or Korea Development Bank, to meet their capital needs. They expected a large capital injection from one strategic partner would avoid tarnishing perceptions of the firm, and securing the right partner might even elevate the bank’s reputation.

This approach did not sit well with middle management, however. They were disaffected by the executives’ protracted search for the perfect magic bullet to the firm’s woes. They agreed that the firm had a perception problem, but suspected that this stemmed from the bank’s leverage ratio, which could be corrected by taking immediate and measurable action. Middle management
felt that a solution to the crisis was not just going to happen on its own. They would need to make it happen. So, while Lehman’s leadership conjectured about a Korean deal and fabricated a Warren Buffett rescue, Felder directed his team to communicate and collaborate on more actionable solutions. Felder’s team chat room was not the only time that middle management attempted to organize its own response in the face of executive inaction, nor was it even the first. Well before the problems in the credit market were evident Lehman’s middle managers were organizing their own method of managing the firm’s leverage. Absent clear guidance from the executive committee, middle management seized the initiative to implement its own risk standards.

In May 2007, even before it was apparent that a crisis was looming, middle managers were working together to establish risk limits. Without a clear global risk limit forthcoming from the executive committee, Rob Redmond, a senior advisor in the firm’s Global Financial Sponsor business, observes, “we should put some kind of a limit in place so that we can begin to manage what should be a scarce resource.” During the heady days of the real estate boom, Lehman’s executive committee had all but abandoned standardized risk limits. Now, rather than waiting for the executive committee to implement some kind of risk framework, middle management begins organizing its own risk controls. Redmond seems to recognize here that without the formal authority of the executive committee, establishing a limit that is respected across the bank’s many business units will require that any such limit be designed in consultation with each of the affected groups. Otherwise, there would be nothing to prevent a manager from violating this self-imposed limit within his or her own group, as the executive committee would not enforce middle management’s separate risk standard. Redmond suggests that those on the email meet to discuss
adopting a new risk framework and proposes using a three billion dollar limit in the interim.

Alex Kirk, a managing director of global credit products, responds by proposing they engage the risk management team to help them identify appropriate limits. He suggests that he and Steve Berkenfeld, a managing director for principal investing and private equity, meet with Lehman’s Chief Risk Officer before reconvening with those on the email and asks, “does that sound reasonable to everyone?”

Figure 20. Middle Management Collaboration

From: Redmond, Robert D  
Sent: 19 May 2007 9:05  
To: Berkenfeld, Steven; Odrich, Michael; Tutrone, Anthony; Johnson, Matt; Wieseneck, Larry; Konigsberg, Michael; Seery, James; Orlan, Fred; Kirk, Alex  
Subject: Equity Bridge limits

Guys:
With the proliferation of these opptys, we should put some kind of a (global) limit in place so that we can begin to manage what should be a scarce resource (that should run out!) in light of the relative attractiveness of the client situation and revenue/franchise oppty. KKR is in with a request for a 1B equity bridge on Alltel, where they only need 500 so they can have "insurance" in case Carlyle or another bridge source drops. If we had a limit, my guess is that sponsor coverage would push back on this sort of thing in the interest of preserving some dry powder. Keep in mind also that we do not get out of the risk until the LPs or other parties to the syndication actually fund, so these will be long tailed (several months). Also....have we considered not recognizing the revenue until we are completely out of the risk.

If you all think that we should meet to discuss, I would be happy to have Bev get a mtg together. In the meantime, how about ratifying a number so that at least we can say that we have a limit in place... Does 3B as a limit sound right?
We need to consider the limit in the context of our overall LBO risk and single transaction limits. How should we think about the equity bridged to future fund takedown and the firms permanent equity positions on balance sheet? To answer these related issues to come up with appropriate limits we should engage risk management (sic) and fold it into the overall limit framework we are addressing with them now. I suggest (sic) Steve and I confer with Madelyn and the team on that project and comeback to you. Steve we should try to have a call on Monday. Does that sound reasonable to everyone?

Does to me

Me too.

Functionally excluded from the executive committee’s formal decision-making process, middle management came together to take action via informally negotiated arrangements. However, this strategy proved far less successful when operating under the power imbalance that existed.
between middle management and the executive committee, as what “sounds reasonable” to people is informed by where they are situated in the organization and their relationship to the firm’s organizational structures. In the first email of the chain that follows, you will notice that Felder is unsettled by “rumours of writedowns.” While preoccupation with market rumors was primarily the province of executives, middle management shared their concern in a way. Those in middle management were not unbothered by market rumors, they just happened to be far more concerned with what to do about them. Attitudes about market rumors diverged over which actions constituted a reasonable response.

In February 2008, Felder hopes to use this new set of rumors as an excuse to delever the bank’s balance sheet, even referencing the troubled Bear Stearns when he predicts that if things get much worse, “it will become very difficult for us to access the market in any significant size on a regular basis.” Thomas Humphrey, the head of global fixed income distribution and a member of the executive committee, acknowledges only the portion of Felder’s first email about the rumor and not what should be done about it, citing a rank and file member of his team, Steve Pedone, who heard “the same rumour feedback.” Lowitt, at the time the Co-chief Administrative Officer for Finance, interjects the executive committee’s usual refrain, laying the blame for the firm’s ongoing difficulties with rumors and “poor press.” He then adds the vague exhortation that it is “hard hat time again,” suggesting that there is work to be done without specifying what that work entails exactly.

Felder recognizes the opening and attempts to gently return the conversation’s focus to the steps that should be taken to minimize the effects of the rumors and prepare for worsening market conditions. He uses the rather ominous remark, “I think the market is going to get worse
for the next 3-6 months,” to shift the executives’ attention to the repercussions of inaction.

Essentially, he is begging the executives to ignore the source and content of the rumors and, instead, concentrate on the consequences that these rumors could have on the bank’s operations. In his view, which is representative of those across the middle management tier, the best way to respond to these rumors is to ensure that Lehman is prepared to weather worsening market conditions. However, Felder’s appeals to preparedness fall on deaf ears. In the very next email Tonucci reports that PIMCO, the world’s largest mutual fund, “just called about this rumour also.” At this point, the conversation that Felder originally intended has gone entirely off the rails.

Humphrey weighs taking a more “offensive” approach to addressing the rumors, asking, “what can we say?” and later he proposes new messaging “targeted toward the biggest holders” of Lehman’s debt and equity. Again, this communication would in no way alter Lehman’s capital structure, operating plan, or ability to withstand a further downturn. Felder must, ultimately, content himself with having Lehman’s large clients added to the list of people contacted as a part of the new “offensive” response strategy, which might, at least, help preserve existing business.

Figure 21. Felder in the Executive Echo Chamber

<table>
<thead>
<tr>
<th>From: Felder, Eric</th>
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<tbody>
<tr>
<td>Sent: 21 February 2008  12:21</td>
</tr>
<tr>
<td>To: Callan, Erin; Morton, Andrew; Humphrey, Thomas; Lowitt, Ian; Tonucci, Paolo; Merli, James</td>
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<tr>
<td>Subject: Leh spreads</td>
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We are again underperforming the market significantly on the back of rumours of writedowns. Leh [credit default swap] is now out to 215-220 with [Merrill Lynch] at 200. Once we hit 300 it wil (sic) become very difficult for us to access the market in any significant size on a regular basis (as [Bear Stearns] is
going through). I'm not saying this is going to happen but its a significant non
zero probability. We should make sure we are thinking about this (as I am sure
we are) around the existing balance sheet and any funded requests we are
expecting in the pipeline.

From: Humphrey, Thomas
Sent: 21 February 2008  12:25
To: Felder, Eric; Callan, Erin; Morton, Andrew; Lowitt, Ian; Tonucci, Paolo;
Merli, James

Pedone also just reported in the same rumour feedback. He got it from
Shenkman Capital, HY Money Manager.

From: Lowitt, Ian
Sent: 21 February 2008  12:38
To: Humphrey, Thomas; Felder, Eric; Callan, Erin; Morton, Andrew; Tonucci,
Paolo; Merli, James

as everyone probably aware, this, and poor press, is affecting our ability to
issue in Asia; the samurai issuance is going badly. Hard Hat time again.

From: Felder, Eric
Sent: 21 February 2008  12:41
To: Lowitt, Ian; Humphrey, Thomas; Callan, Erin; Morton, Andrew; Tonucci,
Paolo; Merli, James

I don’t mean to be the continual bear and I hope I am wrong but I think the
market is going to get worse for the next 3-6 months

From: Tonucci, Paolo
Sent: 21 February 2008  13:52
To: Felder, Eric; Lowitt, Ian; Humphrey, Thomas; Callan, Erin; Morton,
Andrew; Merli, James

PIMCO just called about this rumour also…. this is from their credit analyst.
From: Humphrey, Thomas  
Sent: 21 February 2008  14:07  
To: Tonucci, Paolo; Felder, Eric; Lowitt, Ian; Callan, Erin; Morton, Andrew; Merli, James

should we be considering a more “offensive” response to the rumours with our largest debt holders, ex: what we can say given the blackout period?

From: Lowitt, Ian  
Sent: 21 February 2008  14:21  
To: Humphrey, Thomas; Tonucci, Paolo; Felder, Eric; Callan, Erin; Morton, Andrew; Merli, James

Erin, can we use your comments at the CS conference that we had write downs of 1.3 bn to January, and February is obviously tougher (maybe equivalent of dec and January together), but 15-20 is clearly wrong order of magnitude. Also, that business run rate very healthy away from write downs.

From: Humphrey, Thomas  
Sent: 21 February 2008  14:22  
To: Lowitt, Ian; Tonucci, Paolo; Felder, Eric; Callan, Erin; Morton, Andrew; Merli, James

sounds good. I would like to be targeted toward the biggest holders of debt & Equity. Can we construct a list, then huddle on possible next steps?

From: Lowitt, Ian  
Sent: 21 February 2008  14:23  
To: Humphrey, Thomas; Tonucci, Paolo; Felder, Eric; Callan, Erin; Morton, Andrew; Merli, James

lets make sure Erin on board that this is part of the public record.
Although it may rightly appear that Felder is just screaming into the abyss, the exchange above accentuates the differences between where the executive committee and middle management locate Lehman’s organizational priorities. While members of the executive committee were quite literally asking “what can we say” in response to market rumors, middle management was far more inclined to wonder “what can we do” about them. Secure in the knowledge that their strategy had worked before, the executive committee was generally perception-oriented. Middle management, on the other hand, was oriented toward operational change. Both expected Lehman to endure the existing market turmoil, but those in middle
management anticipated this outcome would require action and internal adjustments. This immediate difference was compounded by differences in each groups’ confidence in their own capacity to direct change at various institutional levels. Where middle management saw the need to realign Lehman’s internal operations with its organizational values, executives saw an opportunity to use Lehman’s organizational values to redefine Wall Street’s institutional norms. It was as if one group wanted to change the ship’s course, while another wanted to change the ocean.

**The Crisis Continues and the Divide Deepens.**

The differences in these two outlooks became more pronounced as the crisis wore on, with both groups becoming more desperate to dominate the narrative. The executive committee and middle management both believed that the policies and priorities for which they advocated were the legitimate instantiation of Lehman’s organizational principles. Consequently, they marshalled the same organizational ideals to endorse conflicting courses of action. Felder’s more forceful appeal to members of the committee in March 2008, about one month later, provides a clear example of this.

While awaiting a reply from CFO Erin Callan, Felder forwards an email expressing his concerns to executive committee member Bart McDade, the global head of Lehman’s Equities Division, noting, “I’m not sure we are set up to weather this one.” McDade’s response signals his objections to Felder’s petition from the very beginning, opening with a single word: “Leadership!” He admonishes Felder to “think positive,” adding, “perpetual optimism is a force multiplier.” McDade’s instructions to “keep plugging away!!” encapsulate the thrust of his reply. He is directing Felder to stick to the plan and embrace the executive committee’s leadership style
and talking points within his own team. McDade even insinuates that Felder’s lack of resolute leadership might be part of the problem, interposing the question “what has your credit team conjured up in balance sheet and cash credit relief itself?”

Comparing McDade’s email to Felder’s subsequent answer illuminates how both men could reach such wildly different conclusions when putting the same organizational beliefs into practice. McDade and Felder share the conviction that Lehman is exceptional, bound up in an entrenched and tested meritocracy. Yet, this sentiment manifests differently for both. After enumerating the banks that “are already lining the equity up,” Felder contends, “We need to be at the front of the line.” Not only does this assertion imply that Lehman should be at the front of the line, but that it is, in fact, capable of being at the front of the line because its exceptional management and history of success will enable it to jump in front of UBS, Fannie Mae, Merrill Lynch, and the like. Felder wants to leverage Lehman’s reputation to delever the bank’s balance sheet. Relatedly, McDade is so convinced of Lehman’s superiority that he is unable to entertain any notion of how things might be done better, especially if this requires doing so “not because it makes sense, but just because.” He rhetorically submits to Felder, “what else should we be doing that we are not doing,” intimating that they do not need to do anything else.

Upon hitting a wall with McDade, Felder tips his hand to co-CAO Ian Lowitt in the hopes of achieving a better result. The outcome, however, is not much different. Like both Felder and McDade, Lowitt perceives Lehman Brothers as set above its Wall Street peers, declaring, “it will be tough, but we are more active than others.” Moreover, he agrees with Felder that counterparty risk will cause another bank run, but, echoing McDade, he believes that “it will be industry-wide, not Lehman-specific.” The subtext of Lowitt’s comment, then, is that Lehman is
better positioned to withstand a run on the financial sector than any of its industry competitors.

Still, Felder takes one more shot with the plea, “Begging that people trust me. You can fire me if I’m wrong.” Of course, the tension between Felder and those on the executive committee is not the product of distrust, but is rather a consequence of parallel views on how best to enact Lehman’s guiding principles in practice.

Figure 22. Felder to Callan… and McDade… and Lowitt

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From: Felder, Eric  
Sent: 26 March 2008 17:03  
To: Callan, Erin  

Been going back and forth with ian today and he sent me your way around the potential market convert.....i think the tone in financials is going to continue to deteriorate over the next few weeks as we head into [Merrill Lynch] earnings. I would not be surprised to see another significant flare up around counterparty risk and pulling of secured lines. I do not think that the market is going to let us delever at the pace that we need to delever.

---

From: Felder, Eric  
Sent: 26 March 2008 17:24  
To: McDade, Bart  

I know you are probably sick of hearing from me on this topic but I think the market is going to take another run at us around counterparty risk, repo etc and I’m not sure we are set up to weather this one.
From: McDade, Bart  
Sent: 26 March 2008  18:35  
To: Felder, Eric

Leadership!.......there is spot of good news in the last week...i will get u the number but we have I believe 7 - 10 cash cap relief by movement of assets in the last 6 days...i know u are focused on eq issuance/green lite is on there...what else should we be doing that we are not doing?..what has your credit team conjured up in b/sheet and [cash credit] relief itself...think positive...and keep plugging away!!! We need u advising and creating solutions...not just advising....perpetual optimism is a force multiplier...i know it is hard to believe when our execution has been so poor...but execution improving by the hour on the asset side of bal sheet....dick has tapped me to own all bsheet decisions and get us on our way out of deficit....and I am now living and dreaming every position...and cvrd is gone!...get ray to unload his funded high grades

From: Felder, Eric  
Sent: 26 March 2008  18:44  
To: McDade, Bart

Every financial failure has been a result of not being match funded. I’m scared that our repo is going to pull and our 7b over overnight [counterparty] is going to go away mid april. The [Merrill Lynch] earning will be the catalyst. To move 5-10b of commercial will probably cost us 3-4b and we will need to issue equity at that point. Ubs, [Washington Mutual], fnma,fre, [Merrill Lynch] are already lining the equity up. We need to be at the front of the line. We need to be set up for [counterparty] going to zero and a meaningful portion of our secured repo fading (not because it makes sense but just because). I know fred reached out to you today and we are going to do everything we can to sell all non [investment grade] positions. The reality of our problem lies in our dependence on repo and the scale of the real estate related positions which will take longer to sell. I’m scared the mkt won’t give us the time. I’m not in a panic and the moral couldn’t be better. This is all me to a small group. I am a leader!!!!
**Bankruptcy: Charges of Executive Sabotage and Claims of Middle Management Innocence**

Frustrations continued to mount on both sides right up to the moment of the bankruptcy, at which point several middle managers were no longer able to contain their contempt for Lehman’s brass.

On the morning of Lehman’s bankruptcy, in September 2008, Satu Parikh, the managing director of commodities trading, sent several emails similar to that above to the members of the executive committee, but only ever received a response from Mike Gelband, Lehman’s global head of
capital markets. Parikh’s missive is remarkable for its candor, though it was by no means unique. His indignation is palpable through the first paragraph, but it is not until the second that he clearly ascribes blame to the executive committee. In a way, the charge, “I think there needs to be an investigation into the broader issue of malfeasance,” is analogous to the executive committee’s judgment that Lehman itself cannot possibly be at fault. However, unlike the executive committee, which only identifies market rumors and short sellers as the culprit, middle management expands the list of those culpable for Lehman’s misfortunes to include the executive committee itself. Due to their faith in Lehman’s proven investment strategy and the exceptional talents of employees, the only plausible way for middle managers to account for Lehman’s failure is gross malfeasance at the top. Lehman’s internally esteemed exceptionalism precludes any inclination by either group that the firm’s practices or investment philosophy could be at fault. Both groups see their own actions and decisions as beyond reproach. For middle managers, who had been excluded from the committee’s formal decision-making process, this evoked an “us versus them” mentality, which Parikh articulates in the line, “We were NOT in this together.” For his part, Gelband apologizes without acknowledging any responsibility for the firm’s fading fortunes. In fact, his response only serves to reinforce Parikh’s narrative with the added nuance that not all executives are at fault. The claim, “I tried my best both before I got fired and during the 10 weeks I’ve been back,” leaves room to question whether those who fired him also tried their best.

Parikh also calls attention to the physical distance that separated middle management from those on the executive committee, declaring, “You guys on [the thirty-first floor] monumentally screwed this one up.” In this way, Parikh uses the physical arrangement of
Lehman’s office space to reflect what he sees as the ideological distance separating the two groups. While these groups certainly differed in their orientation to the firm’s organizational priorities, the major themes pervading Lehman’s organizational culture were ubiquitous across the layers of the company hierarchy. However, Parikh’s use of Lehman’s floor plan to enforce an “us versus them” outlook enables him and others to preserve a portrait of middle management as blameless.

Figure 23. “You guys on 31 monumentally screwed this one up.”

<table>
<thead>
<tr>
<th>From: Parikh, Satu</th>
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<tbody>
<tr>
<td>Sent: 15 September 2008 2:43</td>
</tr>
<tr>
<td>To: Gelband, Michael</td>
</tr>
<tr>
<td>Cc: Amin, Kaushik</td>
</tr>
<tr>
<td>Subject: Feedback</td>
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</tbody>
</table>

Mike,
I am upset at the lack of guidance in the past few days. Clients, counterparts and the media have provided more color than the senior mgmt of this Firm. In addition to sadness and shame, there is a strong feeling of anger and abandonment. The crack team at the top will carry that with them in all future endeavors.

You guys on 31 monumentally screwed this one up. I am shocked at the poor risk mgmt at the highest levels, and I don't think it started with Archstone. It is all unbelievable and I think there needs to be an investigation into the broader issue of malfeasance.

Mgmt gambled recklessly with thousands of jobs and shareholder wealth. We were NOT in this together.

I thought you'd appreciate a bit of honesty at the end.
In order for middle management to escape responsibility, someone else must be at fault. Displacing blame onto a small cadre of top executives allows middle management to maintain a view of themselves as blameless and, thus, unblemished by Lehman’s failure. This is important because by avoiding blame, middle managers can continue to lay claim to exceptional talents despite Lehman’s collapse. This persists after the bankruptcy, as illustrated below in an appeal from Kaushik Amin, the managing director of liquid markets. Amin, a middle manager, worries that employees, like himself, will not show up for work after the bankruptcy court halts their paychecks. Simply put, the tenor of his note is that you have to pay for talent. He is unable to recognize that by now the jig is up. Lehman has entered bankruptcy and employees, regardless of their talents and skills, are not entitled to a paycheck from a bankrupt company. Still he persists because middle managers did not see themselves at fault for Lehman’s undoing. They identified Lehman’s failure with failures at the executive level and, as such, those in middle management did not believe that the firm’s collapse impeached their own exceptional skill sets in any way. This outlook is reflected by Amin from the outset, who beginnings by insisting, “The financial system is very complex and requires specialized skills.” He continues by drawing a clear distinction between the “sophisticated” labor of Lehman employees and the blue-collar labor involved in pulling physical stock in a warehouse. He claims that even those with the requisite

From: Gelband, Michael
Sent: 15 September 2008 10:27
To: Parikh, Satu

Satu, I understand your anger. I’m happy to shed more light if you want. I tried my best both before I got fired and during the 10 weeks I’ve been back. I apologize. Mike
financial training will be unable to unwind Lehman’s balance sheet in an orderly fashion, proclaiming, “Outside personnel cannot do this task in a short period of time.” Irrespective of the rationale, Amin is grasping for what amounts to a consolation prize. However, it is a consolation prize that he and other middle managers appear to feel entitled to due to what they see as their place among Wall Street’s elite minds. Recall Parikh’s email above, in which he claims that top executives “will carry that with them in all future endeavors.” It is difficult to see how those in middle management could possibly escape being similarly marked by this failure, as they were all involved in Lehman’s day-to-day operations. It is as though they believe their exclusion from the executive committee’s decision-making process insulates them from bearing any responsibility for the firm’s fate. So much so, in fact, that even after Lehman has gone bankrupt Amin writes an email extolling the merits of continuing to pay these employees while the bankruptcy is adjudicated.

Figure 24. Amin on what will happen if employees do not show up for work

From: Amin, Kaushik
Sent: 19 September 2008 11:34
To: McDade, Bart; Kirk, Alex
Subject: Effects on financial system and Lehman creditors of LBI filing for bankruptcy if employees do not show up for work.

Vast majority of Lehman employees are employees of [Lehman Brothers, Inc.], so they have been coming to work even with [Lehman Brothers Holdings] filing for bankruptcy

Once LBI files for bankruptcy, employees are not entitled to a paycheck unless approved by the bankruptcy court.

If that does not happen and employees do not show up for work:
Middle managers located a mandate to act in Lehman’s organizational values and when it became clear that executive leadership would not implement the operational changes that middle managers thought the company’s cultural tenets demanded, they collaborated together to design and implement their own informal solutions. They centered action toward operational change in their own negotiated decision-making process, but struggled against the power imbalance that came with being excluded from executive committee decision making. Yet, it was this exclusion
from the nexus of formal decision-making authority that allowed middle management to cling to a belief in their own talents in spite of failure. Neither the executive committee nor middle management thought the ship was sinking, but where those on the executive committee saw a ship under attack, middle managers saw the ship being sabotaged. After the bankruptcy, blaming leadership became more pronounced among the ranks of middle managers and they made their feelings clear that they had not contributed to the decline and, ultimately, the demise of the company in any way. They still believed themselves to be exceptional and ensconced in Wall Street’s financial elite. Middle management demanded that only the captain go down with the ship.
CHAPTER FOUR
JUNIOR EMPLOYEES

Relative to the sheer glut of emails authored by middle management and those on the executive committee, the data contain comparatively few examples of substantive correspondence between rank and file employees. More often than not, rank and file employees appear on emails as observers, simply copied to emails in which middle managers relate instructions to be carried out by their lower level direct reports. Instances when these lower level employees actually engage in meaningful exchanges with one another or their supervisors often occur with little internal context provided. It is entirely possible that the dearth of internal context present in exchanges between rank and file employees is because they were careful about what they would commit to writing. As such, much of the data from rank and file employees had to be contextualized by recreating the timeline of events along which they occur and situating these exchanges within the fluid relationship dynamics outlined by the rest of the data in order to uncover how the organizational location of junior staff shaped their interactions. Notwithstanding this challenge, the data present a clear and more or less cohesive picture of junior employees at Lehman Brothers during this period.

The picture of Lehman’s rank and file that emerges from the data is anything but a collection of compliant subordinates content to unquestioningly carry out orders behind the scenes. Junior employees were self-confident and quietly critical and on occasion even jocular when discussing Lehman’s plight with peers. Like the executives and middle managers
considered above, rank and file employees imagined that those at Lehman Brothers were capable of overcoming any obstacle. They found comfort in the abiding wisdom that Lehman had weathered worse and now possessed an unparalleled mastery of the financial markets, a legacy of excellence to which they also laid claim by virtue of having earned a place within the company’s ranks. Junior employees upheld Lehman’s cultural tenets and put their faith in their own exceptional skills to see them through. However, this had a different operative meaning for them in practice. The rank and file, especially toward the end, were less concerned with the fate of the firm or the value of their Lehman stock, as many did not own any. They were concerned with what would happen to them and they were confident that they would quickly find employment elsewhere. Like passengers on a sinking ship, Lehman’s junior employees believed it was just a matter of time until another ship came along to rescue them.

Following the bankruptcy, Lehman’s lower tier employees knew that there would be no golden parachutes for them, but they were equally convinced that they would not be stained by the firm’s failure. They expected to escape the crisis with their own reputations and, more importantly, their résumés intact. In fact, the data capture more middle managers successfully exiting the firm in the lead up to the bankruptcy than rank and file employees even attempting to leave. This is not to say that junior employees shared their superiors’ optimism, especially as bankruptcy became more and more imminent. Indeed, the rank and file joked openly with each other about what they saw as maladroit attempts by executives to stave off bankruptcy. Junior employees believed that Lehman’s failure was a failure of management and did not reflect the true caliber of the rank and file. Lehman’s present shortcomings, whatever they might be,
certainly could not be attributed to them, though they were eager to identify with Lehman’s past success.

At the same time, the data reveal an executive committee struggling to control the narrative and concerned that mounting criticism in the press might trigger a mass exodus among the rank and file, neutering the bank’s ability to both respond and carry on normal operations. In the independent, but related, emails that follow, Catherine Jones, the global head of communications, circulates a Wall Street Journal article referencing an anonymous external email entitled “Breaking News: Lehman To Be Acquired by Tooth Fairy,” (see Appendix B for the full text) much to the amusement of junior employees. A short time later Larry Wieseneck, co-head of securities, betrays the executive committee’s pressing concern for the attitudes of the rank and file, when what was supposed to be a confidential communication with the rating agency Moody’s somehow finds its way into the company rumor mill.

It is not altogether clear why Jones distributes this article across the firm. There was speculation within Lehman Brothers that David Einhorn was the referenced email’s author or, at least, was in some way behind it and, in fact, the missive even mentions him approvingly, describing him facetiously as “mean, evil, bad short-seller David Einhorn.” Therefore, it is possible that Jones circulates the piece hoping to get out in front of the story, or even as an attempt to stoke resentment of Einhorn within the firm’s rank and file. In any event, the lighthearted reaction she elicits from Peter Keavey, a senior vice president in the fixed income division, would not have been her aim.

Several weeks later, Larry Wieseneck divulges the executive committee’s genuine concern about the clamoring of those on the lower floors. His email begins with a recounting of a
recent conversation with Moody’s analysts in which he was involved. By this point, Lehman had already suffered one Moody’s downgrade, yet Wieseneck exhibits little concern about the prospect of another or even what should be the more startling revelation that “there is no amount of capital we could raise in the markets that would make them comfortable.” Instead, he reserves his concern for the reactions of junior employees on floors two through five, where “people are asking questions.” Confronted with a rating agency’s grave doubts regarding the continued viability of an independent Lehman Brothers, doubts that invoke the ill-fated Bear Stearns no less, Wieseneck seems more troubled that somehow this news “is now all over the 4th floor.”

Figure 25. “Lehman To Be Acquired by Tooth Fairy”

From: Jones, Catherine P
Sent: 25 August 2008 11:09
To: Freidheim, Scott; [company-wide communication]
Subject: WSJ Deal Journal: Lehman, the Tooth Fairy and the Revenge of the Short-Sellers

All,
The below WSJ Deal Journal story was just published. An email about Lehman Brothers from an unnamed hedge fund manager has been circulating to various institutions from (full text of email in story below) and led to the below story by Heidi Moore on WSJ Deal Journal…
… “Breaking News: Lehman To Be Acquired by Tooth Fairy”

From: Keavey, Peter
Sent: 25 August 2008 17:52
To: Gregg, Paul

Whos (sic) underwriting this deal, Santa Claus?
What Lehman’s leadership failed to realize was that the rank and file simply did not see their fate tied to that of Lehman Brothers in quite the same way. What is more, this was nothing new and had, by and large, been the case for at least a year. Toward the end of 2007, after Lehman’s ballooning balance sheet had exposed the potential dangers of the firm’s Repo 105 accounting practice, a junior employee and his middle management supervisor exploit their mutual recognition of the potential hazards that this poses to share a moment of levity with one another.

Repo 105 is an accounting maneuver, whereby a short-term over-collateralized repurchase agreement is classified as a constructive sale. Lehman used Repo 105 transactions to make it appear as though they had less debt than they actually did when it came time for them to publicly report earnings. The process would begin with Lehman identifying another financial
firm that had excess cash reserves to lend out. This other financial firm is termed the “counterparty.” Lehman would then “sell” assets, generally government bonds, to the counterparty in exchange for their cash value. At the same time, Lehman would agree to repurchase these same assets from the counterparty soon after, usually only a day or two, at 105% of their cash value, hence the name Repo 105. In the interim, Lehman would use the cash from the “sale” to pay down its debt right before publicly releasing its required financial disclosures. Once its disclosures were published, Lehman would resume its debt and repurchase its assets from the counterparty at the 105% premium. In reality, the assets “sold” rarely changed hands because the period between the sale and buy-back was so short, but the well-timed process allowed Lehman Brothers to temporarily conceal sizable losses from its balance sheet. This was all legal.

Repeated use of Repo 105 as a balance sheet cosmetic comes with tremendous risks, not the least of which is the need to regularly find counterparties willing to essentially lend out their cash reserves. The need for additional counterparties precipitates the exchange below, as, having already recorded $10.5 billion of Repo 105 agreements, Mitchell King, the managing director of rates trading, reports that he is still trying to “get another 700 million out.” Management’s continued reliance on Repo 105 to superficially strengthen the firm’s balance sheet around reporting time was a mark of hubris and, indeed, Lehman was the only major firm employing this gimmick during the Financial Crisis. Neither tier of management could even fathom the possibility of prospective counterparties disappearing. It was utterly unthinkable that companies would not jump at the chance to lend to the mighty Lehman, which might explain why, when asked “Can you imagine what this would be like without 105?” King responds by joking, “it
would be even more worser.” Unfazed, Jerry Rizzieri, a vice president and senior banker among the rank and file in the firm’s fixed income division, joins in the joke, adding, “In fact, it might even be the most worstest.”

The reasons behind Rizzieri’s flippancy, however, are different. He does not appear apathetic about the chances of Repo 105 counterparties suddenly retreating. Recall that before his supervisor responds comically, Rizzieri earnestly calls attention to the prospective peril of being forced to perform their work “without 105.” Still, he is comfortable enough to joke about the dangers posed. Like other members of the rank and file, Rizzieri likely had faith in the judgment and skill of his superiors and even if, in the end, things turned out poorly, his time at Lehman would serve as valuable experience. Unlike the company men higher up, who “bled Lehman green” and could not imagine a world without Lehman Brothers, junior employees did not define themselves through their commitment to the corporate entity that was Lehman.

Figure 26. King and Rizzieri talk Repo 105

From: Gavin, Mark  
Sent: 26 November 2007 12:18  
To: Silverberg, Marc; King, Mitchell; McGarvey, Michael  
Cc: Gothard, Chaz; Allery, Stephen; Feraca, John  

Hi guys - am done on the following repo 105  
$8.7bln Agencies  
$1.8bln US Tips  

I will try again tomorrow on $800m  (Additional $700/1.065 Haircut + $140m still to do of original)
Even though rank and file employees did not outwardly share the same allegiance as their organizational superiors to the material trappings of the corporation, their identity was, nevertheless, tied up in the cultural understandings of Lehman Brothers. Lehman’s
organizational culture had meaning for the rank and file beyond the bounds of the bank’s four walls. They would always be “Lehman investment bankers.” They just might not always be investment bankers at Lehman Brothers.

This became abundantly clear after the bankruptcy, as junior employees continued with “business as usual,” confident that they would not be blamed for the firm’s misfortunes and so allowed to keep their jobs even as the bankruptcy court prepared to sell off Lehman’s business units piecemeal. In the exchange below, Paul Gregg, a vice president of global commodities trading, asks his peer Peter Keavey, a senior vice president, if he has heard anything about the rumors that Barclays Capital (“Barcap”) plans to acquire Lehman’s investment banking business out of bankruptcy. Imparting that both he and Keavey would be included in the rumored deal, he says, “the Barcap thing looked good.”

Gregg’s parenthetical addition, “that’s us,” is almost assuredly unnecessary. Peter Keavey knows where he works. Its inclusion serves only to convey a near childlike giddiness that prevailing rumors hold that their jobs are out of jeopardy. This singular remark encapsulates Gregg’s trepidation about what will happen next as well as his conviction that the outcome will be favorable for them whatever the case. It is also worth noting that this exchange takes place just one day after Lehman filed for bankruptcy protection, so Keavey’s “diplomatic reply,” “Is there anything to tell?” is remarkably suitable. The notion that anything substantive had been decided so soon, much less which, if any, junior employees would be retained, should have been implausible. Yet, Gregg reports, “the Barcap thing looked good.” And while it may have looked good for lower level employees, like Keavey and Gregg, for Lehman Brothers things could not have looked bleaker the day after its bankruptcy.
As time passed following the bankruptcy, junior employees increasingly compartmentalized the business entity Lehman Brothers and the culture of Lehman. Even after the firm failed, their own self-confidence endured. They divorced the firm’s fate from the firm’s culture and continued to embody the resilience, excellence, and exceptionalism that they felt existed at Lehman. This explains why, even after the firm failed, the cultural outlook of former employees in the rank and file persisted unchanged.

John Palchynsky, a junior employee in the collateral allocation group, reports JPMorgan Chase is pilfering Lehman’s Depository Trust account through the extrajudicial reallocation of
Lehman’s pledged collateral securities from a custodial account into Chase’s own corporate account. Lehman Brothers’ Treasurer, Paolo Tonucci, responds by asking, “Why are they doing this?” A mere thirteen minutes later Palchynsky essentially replies, “I don’t know.” Rather than find a more definitive answer to an executive committee member’s question, Palchynsky offers his best guess and then follows it up with, “see you all at Barcap.” JPMorgan surreptitiously looting Lehman’s collateral is a problem for Lehman Brothers, not Barclays, and Palchynsky, who seemed to already be thinking of himself as a Barclays employee, simply could not be bothered with this problem. Yet, Palchynsky’s perspective is recklessly early, as Barclays would not finalize the deal to acquire the remnants of Lehman Brothers until three days later on September 22nd. Barclays had, by this point, confirmed many of the rumors and announced its interest in acquiring Lehman’s investment operation. However, any deal would still need to receive all kinds of approval from both sides of the Atlantic, including approval from the U.S. Federal Reserve, the British Financial Services Authority, the Chancellor of the Exchequer, and a bankruptcy court judge. On September 19th this remained far from a done deal. Nevertheless, Palchynsky is convinced he will soon be a Barclays employee. Even after Lehman’s failure, he remains confident that his skill set will be enough to save him and his career, just as the exceptional skills of employees had saved Lehman in the past. He comments, “It has been one hell of a week, challenging, but exhilarating too,” suggesting that the work of dealing with the firm’s demise is both exacting and rewarding.
Figure 28. Palchynsky ready to move on

| From: Palchynsky, John | Sent: 19 September 2008 16:05 |
| To: Hraska, James; Feraca, John; Aronow, David |
| Cc: Tonucci, Paolo; Blackwell, Alastair; Forrest, Monty; Ullman, Neal; Fleming, Dan; Jones, Craig |
| Subject: Urgent tri unwind |

Also, as per Bill Gallagher, it looks like JPChase is moving [Depository Trust Company] positions out of Lehman’s pledge account to the bank’s account at DTC.

| From: Tonucci, Paolo | Sent: 19 September 2008 18:15 |
| To: (ut supra) |

Why are they doing this?

| From: Palchynsky, John | Sent: 19 September 2008 18:28 |
| To: (ut supra) |

I guess to address our overdraft before Lehman’s assets are locked during bankruptcy?

Anyway, see you all at Barcap.

It has been one hell of a week, challenging, but exhilarating too.

Have a great weekend! ;)

It is as if Palchynsky sees the bankruptcy as an opportunity to ply his skills and a chance to accumulate valuable experience. In so doing, he ignores the exigencies of his present circumstances in favor of imagining the more pleasant potentialities that he believes his
professional qualities will eventually occasion. Thus, he assumes he will shortly become a Barcap employee, but only because he continues to think like a Lehman employee.

The data contain only a single example of a rank and file employee attempting to leave Lehman Brothers before the bankruptcy. Taken together, the emails below are instructive as a negative case depicting a junior employee deciding to abandon the firm. James Macintosh, a vice president of carbon trading, asks his middle management supervisor Max Coreth, a managing director of commodities trading, if he can spend the second week of September (i.e. 9/8-9/12) visiting the coal team in Denver and attend a trade group conference there. While the data do not contain Coreth’s response, the second email establishes Macintosh’s true motivation for making the trip to Denver. In the second email, sent the Monday morning following his trip (i.e. 9/15), Macintosh reconnects with Robert Forgrave, the global head of commodities for rival investment bank CIBC, to solicit employment with Lehman’s competitor. The aide-memoire “we met this past winter to discuss potential carbon trading roles at CIBC World Markets” reveals that Macintosh’s trip to Denver was not only a premeditated attempt to leave Lehman Brothers, but also that it was not his first. Macintosh later explains his desire to leave Lehman, noting, “Now that I am (very likely) on the market I wanted to reconnect.” It is not clear from either exchange when exactly Macintosh lost his faith in Lehman Brothers, but his emails leave little doubt that he did not share his peers’ attitude that rank and file employees could just wait around to be saved from the crisis.
Figure 29. Macintosh prepares to abandon ship

From: Macintosh, James
Sent: 25 August 2008 09:36
To: Coreth, Maximilian
Subject: Coal Conference / Denver Office

Max, as discussed on Friday I think it would be helpful for me to spend some time with the coal team in Denver. They suggested that I come out for the second week of September, which would allow me to spend time with the team, visit a coal mine, and meet industry participants / discuss market conditions at the below conference:

http://www.nationalcoaltransportation.org/events/fall2008.html

Please let me know what you think.
From: Macintosh, James  
Sent: 15 September 2008  7:29  
To: robert.forgrave@us.cibc.com  
Subject: Carbon Trading  

It was nice seeing you again last week. As you’ll recall we met this past winter to discuss potential carbon trading roles at CIBC World Markets. Since then I have successfully established the emissions (SO2/NOx), carbon, and coal trading businesses at Lehman. I have developed an extensive network and expertise in the market and would be able to quickly establish similar capabilities with a new firm. Now that I am (very likely) on the market I wanted to reconnect regarding any potential opportunities with your team. Please let me know if there is a number at which I can reach you; my contact info is below.

Thanks,
James Macintosh  
917-536-2246  
jmacintosh01@gmail.com
This negative case reflects many of the fundamental differences central to the hierarchical divisions at Lehman Brothers. Middle management operationalized Lehman’s values by pursuing concrete action to the extent they were able, while those on the executive committee unflinchingly adhered to strategies that had proven successful in the past for the very same reason. Where middle managers saw executive inaction or operational negligence, executives saw strategic and steadfast resolve. Where executives saw panicking middle managers overreacting, middle management saw sensible measures and overdue changes. Both used the same cultural tenets to justify their conflicting approaches. The negative case above appears to be a microcosm of this same conflict within the rank and file. Most junior employees believe that, like passengers on a sinking ship, it is only a matter of time until they are rescued. They expect other investment banks to recognize that their skills and experience are far too valuable to be lost when Lehman fails, so they are content to wait for the next opportunity to come along. On the other hand, though Macintosh likewise believes his skills are highly prized, recounting as much in his email to Forgrave, he goes searching for a lifeboat. Like the middle managers, who discovered in Lehman’s organizational principles an injunction to act to save the firm, Macintosh concludes that it is incumbent upon him to act to save himself, as he proactively ventures to abandon ship.

Importantly, both Macintosh’s decision to attempt to leave and others’ decision to patiently remain, just like the larger managerial decisions toward inaction or change, were agentive and contemplative. While these actions were informed by the structure of organizational hierarchies and institutional histories, there were undertaken by people interacting with one another to situate the meanings of events within shifting organizational contingencies during a
period of crisis. Decisions made throughout Lehman Brothers represent different instantiations of the same cultural principles. Each decision, exchange, and interaction is illustrative of differently positioned groups enacting the same organizational culture toward different organizational priorities based on the exigencies apparent at different organizational locations. As such, Lehman’s organizational crisis did not lead to cultural disintegration, but rather engendered a shared cultural zeal, which complicated decision making when different groups used it to justify competing courses of action.
CHAPTER FIVE
CONCLUSION

The failure of Lehman Brothers is a compelling case of cultural survival despite organizational demise because it is an instance of complete organizational collapse that nevertheless accommodates social scientific inquiry by preserving a record of employee interactions. Though the permanent failure of the organization renders traditional ethnographic methods unavailable, Lehman’s email records remain preserved as cultural artifacts. These records of employee interaction enable the organization’s history, practices, and negotiated order to be recreated and observed. The foregoing chapters piece together surviving email exchanges to provide a picture of Lehman Brothers during its final months and demonstrate how employees across the organization’s hierarchy sustained and amplified Lehman’s organizational culture in different ways as the crisis deepened.

The company’s organizational culture was grounded in the extra-local free market logics concerning meritocracy, the significance of talent, and the virtues of competition that are institutionalized in the American financial sector more broadly. Institutionalized assumptions about talent and competition were ensconced in executive committee accounts of the firm’s prior triumphs. Executives located these institutional logics in every one of Lehman’s previous successes, crediting the firm’s counter-cyclical growth strategy with the company’s rapid expansion during the decade before the bankruptcy. The counter-cyclical growth strategy itself was an expression of the perceived talent and expertise embodied by Lehman executives. They
believed that they had devised a way to repeatedly outsmart and outcompete Wall Street’s other investment banks and pointed to the gifted workforce who concocted and skillfully executed this strategy to explain their enormous and sustained success. They held out their experiences during the dot-com bubble and Russian Financial Crisis as proof of this. When members of the executive committee proclaim, “Will and skill always win,” or demand, “No blinking,” they are instantiating the institutional logics of talent and competition that are bound up in the firm’s counter-cyclical growth strategy to justify organizational inaction and avoid the past overreactions of their competitors by simply “staying the course.”

Middle management’s desire to issue new equity hinged on the same institutionalized assumptions about talent and competition. Unlike executive committee members, however, they did not believe that success through counter-cyclical growth was self-actualizing or could be achieved through inaction. While they were resolved that they possessed “very specialized skills” that enabled them “to understand sophisticated financial systems,” this amounted to naught if the executive committee hindered their ability to exercise these talents and take advantage of their competitive edge. This plays out most clearly, perhaps, when Felder argues, “Lehman needs to be at the front of the line [to raise fresh equity].” Felder, as well as the executives with whom he corresponds, maintains that Lehman’s history of success makes it the best bank on the Street. They are all convinced that Lehman is superior to UBS, Washington Mutual, Fannie Mae, Freddie Mac, Merrill Lynch, etc. As such, they do not anticipate encountering any difficulty cutting in front of their competitors in the line to raise equity. The executives, however, do not believe there is a need to race against inferior banks, while Felder is of the opinion that the ability to outcompete others does not matter if you refuse to participate in
the competition altogether. After the bankruptcy, middle management expresses resentment over being hamstrung in their attempts to save the bank by the executive committee. They feel the firm’s executives had betrayed the meritocracy on which Lehman was built, ultimately declaring that they “were NOT in this together.”

Rank and file employees were able to disentangle their personal identities from the failure of Lehman Brothers more quickly and completely than either of the groups above them. Though Lehman’s junior employees were far less concerned with the fate of the firm than their organizational superiors, they turned to the same institutional logics when constructing their place in the labor market both before and after the bankruptcy. Rather than use prevailing ideas about talent and competition to decipher what Lehman should do to address its woes, junior employees adapted these assumptions to inform their own personal responses to the crisis. Members of the rank and file were engrossed in unraveling how the logics of competition would manifest in the labor market and affect their employment prospects. At the same time, however, they were convinced that they had, at least individually, been “successful at Lehman” and “possessed expertise” that would be recognized and valued by other prospective employers. They upheld Lehman’s shared culture of exceptionalism and anticipated that time spent at Lehman Brothers would serve as sufficient signal of their talents and mastery of financial skillsets by virtue of simply having secured such prestigious employment with what was once a well-regarded Wall Street titan.

Throughout the course of Lehman’s downfall, its organizational culture galvanized different hierarchical groups to condemn the perceived faults and flawed decisions of other groups, both internal and external, while enabling each of these groups to avoid accepting any of
the blame themselves. Importantly, however, each group was consistently oriented to the collective problem of Lehman’s deteriorating financial position and embraced the same institutional logics in their proposals for addressing the crisis. Disagreements seldom arose when determining “what do these logics mean,” but instead emerged as disputes over “what do these logics mean we should do.” We can now revisit the organizational failure typology introduced in Chapter One.

Previous studies of organizational failure demonstrate how organizations can fail, in whole or in part, and outline the relationship between organizational failure and the failure of organizational cultures. Reviewing what can happen to an organization’s culture under instances of temporary and total organizational failures foregrounds the virtues of these classifications and clarifies this study’s contribution to the organization studies literature. Standard business school case studies, like Kotter and Heskett’s (1992) classic evaluation of Nissan, envision a top-down leadership-driven sort of culture change in which management identifies operational deficiencies and implements new norms of conduct and ways of thinking to overcome the challenge. Occasionally, however, organizational crises bring about group role disintegration and complete cultural collapse, as in the case of the Mann Gulch Fire (Weick 1993), while in other instances organizational crises inflame cultural schisms that reveal or precipitate multiple idiocultures, as in the case of the Plainfield Tornado (Fine and Hallett 2014) or Arthur Andersen (Hallett 2003). Vaughan (1996) even demonstrates how an organizational culture can endure a momentary, albeit tragic, organizational failure, leaving the organization vulnerable to similar occurrences. However, little attention has been directed toward understanding how organizational culture can survive the complete and total failure of an organization. This study, quite literally, fills this gap
in the literature and completes the typology in Figure 30 by demonstrating that though Lehman employees disagreed about how to solve the organization’s problems, they remained similarly oriented to the crisis. Lehman’s organizational culture served as a source of cohesion that provided employees with a common frame of reference for understanding the crisis, but also

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provoked confusion as conflicts, driven by employees’ different organizational positions, emerged over how best to respond.

Despite the organization’s failure, Lehman Brothers’ culture never waned. It did not deteriorate or disintegrate, nor did it fracture into rival idiocultures with competing meanings systems and paradigms. Each of the company’s hierarchical groups developed slightly different proposals for dealing with the crisis and leveraged their recommendations to ascribe blame to other groups after the organization ultimately collapsed, but each of these proposals rested on the same shared cultural orientation. None of the hierarchical groups ever abandoned the core tenets of meritocracy and exceptionalism. They simply manifested them in different ways and mobilized them toward distinct organizational priorities. Each group felt as though they had done exactly what they were supposed to do and so were unable to entertain the notion that they might have acted any differently. Even after the organization’s failure, the organization’s culture endured, which, perhaps, not only demonstrates the durability of Lehman’s culture, but also the durability of the privilege of elite groups. Former Lehman Brothers employees fully expected and, indeed, felt entitled to retain the social status and economic privilege they felt their talents merited and, in fact, most all of them did.

Jerry Rizzieri was made a managing director when Barclays acquired Lehman out of bankruptcy and since 2016 he has been head of Mizuho Securities, the U.S. investment-banking subsidiary of Japan-based Mizuho Financial Group. Paul Gregg was recently named Chief Operating Officer and Chief Financial Officer of Rock Elm Capital, a private equity firm in Connecticut. Peter Keavey is the Director of Crude and Refined Energy Products for the Chicago Mercantile Exchange (CME Group), where he is responsible for risk management and ensuring
stability in the oil and gas markets. John Palchynsky did, indeed, end up at Barclays Capital, just as he predicted, and James Macintosh followed his supervisor, Max Coreth, into the energy sector, where they work for Sempra Energy.

Lehman’s former middle managers fared equally well. Kaushik Amin, who argued, “The financial system is very complex and requires specialized skills,” was rewarded for his own specialized skills when he was tapped to head Royal Bank Scotland’s (RBS) commodities division shortly after the bankruptcy. In the May 2009 press release announcing Amin’s hiring, RBS CFO Mark Snell declared, “Kaushik’s experience running international businesses in varied market conditions will contribute greatly to the continued success of the firm. We look forward to him joining our management team.”¹ Amin’s time at Lehman Brothers during the firm’s failure, rather than being a liability, appears to have been among the primary reasons for his hiring. Satu Parikh, who confronted members of the executive committee via email on the morning of the bankruptcy, was also hired by RBS before moving on to Harvard Management Company to serve as the Natural Resources portfolio manager for the university’s endowment fund. Ken Umezaki, the author of the first email shared in this paper, now works for a digital music streaming company, of which he is a chief investor.

Even Lehman’s executives, who were the most visible during the firm’s downfall, have been successful since the bankruptcy. Barclays Capital paid former Lehman CFO Ian Lowitt a $4.5 million retention bonus for assisting with the post-bankruptcy merger. Barclays also hired Paolo Tonucci. JPMorgan Chase quickly snatched up Beth Rudofker, citing her well-established relationships with federal regulators. Following the bankruptcy, Ed Grieb left the financial sector and now works for the Roman Catholic Diocese of Rockville Centre on Long Island. Thomas Ward, Peter. 2009. “RBS Sempra Commodities Hires Kaushik Amin as CEO,” BusinessWire, May 5.
Humphrey joined the hedge fund GoldenTree, which “manages alternative and non-traditional asset strategies for sophisticated institutional investors with high risk appetites” (i.e. short-selling). Bart McDade founded the hedge fund River Birch Capital, which subsequently failed in December 2018 just over ten years after Lehman’s failure. Erin Callan retired at age 45 and lives in The Hamptons.

As for Eric Felder, he was finally appointed to Lehman’s executive committee on September 7th, 2008, barely a week before the bankruptcy. After acquiring Lehman Brothers, Barclays finalized a $41 million retention deal with Felder to ensure he would stay.

It seems CEO Dick Fuld is the only former Lehman executive to struggle to find employment following the firm’s collapse. Since the bankruptcy, Fuld has bounced from project to project, unable to escape bearing the responsibility for Lehman’s failure. Like Nissan’s former CEO, Takashi Ishihara, and the Space Shuttle Challenger project managers, Larry Mulloy and Stanley Reinartz, Fuld was sacrificed to the politics of blame. Wall Street and the public at large needed a villain. Congress wanted to know who was responsible. Fuld became the scapegoat: the captain of the sunken ship and the face of Lehman’s failure. Fuld, like NASA’s project managers and Nissan’s Ishihara, was unable to shake the negative associations that came with being the figurehead of a failed organization.

Employees at all levels of Lehman Brothers creatively enacted local manifestations of the institutional logics that structure the wider field of American finance. Therefore, their decision-making processes, interactions, and practices, while distinct to Lehman Brothers, were at least somewhat familiar to those in other organizations. This is likely the reason that so many of them quickly found similar employment with other organizations in the field despite the failure of
Lehman Brothers as an organization. Yet, the other organizations that occupy that field still needed to explain what happened to Lehman Brothers before they could move forward with business as usual. In Dick Fuld, they found their explanation. Locating the immediate cause of Lehman’s failure in a single powerful decision maker made the remedy easily apparent. The individual responsible had to be fired, reassigned, forced into retirement, or, in Fuld’s case, ostracized. It seems the industry attached to Fuld all of the faults contributing to the organization’s final negative outcome.

Whether or not Fuld, or anyone else, could have taken action to prevent the organization’s failure is not particularly pertinent here precisely because Lehman’s bankruptcy was so unexpected. Unlike the downfall of the more cavalier Bear Stearns, whose employees had earned a reputation for being Wall Street “cowboys,” Lehman Brothers’ bankruptcy came as a surprise to many, as the company had been seen as a relatively safe bet until its waning months. As late as February 2008, executives and some senior personnel were still putting billions of dollars of their own money into Lehman Brothers preferred shares. Lehman Brothers was the only major investment bank to formally declare bankruptcy during the 2007-2008 Financial Crisis, but its failure is only seen as exceptional in retrospect. Had Lehman failed six months earlier, policymakers from that period suggest that the bank would have been offered the same government-underwritten rescue that Bear Stearns received at the time. Had Lehman failed two months later, it is likely that the bank would have been fully bailed out like Citigroup, which

2 The author is grateful to the members of his dissertation committee for their help formulating and articulating this point, as well as a great many others along the way.


remains the sole example of bank nationalization in United States history. At the time of its bankruptcy, Lehman was not stained by a bad reputation, so the big surprise is counterfactual. Moreover, Lehman employees at all levels of the organizational hierarchy never considered the bank “too big to fail.” That terminology only emerged in response to subsequent Wall Street bailouts. In fact, employees were unable to envision the firm’s failure. They didn’t even talk about the possibility of a Bear Stearns-like buyout. Analytically, Lehman Brothers is a case of “absence” and that absence proves to be the crux of the case.

It seems Dick Fuld was right to observe, “the real success for Lehman Brothers in my view, and the key differentiator, was our culture.” Yet, it was this culture that paralyzed the organization with its unpredictability. Lehman employees could not address organizational contingencies that they were unable to acknowledge existed. Employees at all levels and locations of the organization were ensnared in the contentious and, at times, confounding cultural work of defining the appropriate course of action as the crisis developed, often over the vocal objections and disagreement of those at other levels and locations. Lehman’s failure occasioned intensified cultural zeal, as the organization itself imploded. However, even after Lehman’s demise its culture of exceptionalism and meritocracy survived in former employees’ explanations of the failure, which they embraced, defended, and carried forward as they dispersed to new organizational settings. With so many former Lehman Brothers employees now scattered across different industries, the questions to which social scientists should turn their attention are where, how, and in what unexpected and adaptive ways will Lehman’s extant

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The company’s organizational culture was replete with local manifestations of the extra-local free market logics concerning meritocracy, the significance of talent, and the virtues of competition that are institutionalized in the American financial sector more broadly. The process through which these extra-local elements became endogenous to Lehman’s organizational culture distributed the power to act on these meanings across the organizational hierarchy. Local instantiations of free market logics within Lehman Brothers imbued those logics with distinct force and meaning, which Lehman’s hierarchical groups sought to harness in order to justify particular courses of organizational action. However, the instantiation of a specific logic, or sets of logics, by one group did not preclude the refashioning and reinterpretation of the same logic by another.

Contrary to the claims of most business school case studies on corporate culture, management cannot dictate culture from the top-down because culture does not “move” in just one direction, nor does it operate the same way in all parts of an organization. Culture is at once established and spontaneous. Executives cannot direct it because culture emerges and is reproduced dynamically as people do things together. There was clear organizational consensus at Lehman Brothers about which logics mattered, but not how they mattered. This led to cultural uncertainty regarding which actions were necessary to save the bank because the power to formulate and deploy meanings in support of particular actions was diffused throughout the organization.

This work has shown that organizational culture is more resilient than previously thought and is not only capable of persisting through periods of organizational crisis and turmoil, but,
under certain institutional circumstances, organizational culture can even survive the complete
collapse of organizations. By centering organizationally situated interactions between employees
at the meso-level, the author has demonstrated how macro-level institutional logics can serve as
both a source of cultural cohesion and a point of confusion, as employees occupying disparate
positions across an organization embrace them, combine them, challenge them, and adapt them
in different ways to meet their often conflicting needs. The power to act on meanings and,
importantly, the power to leverage meanings to legitimize action is dispersed throughout an
organization, making organizational culture more ambiguous and unpredictable than traditional
business school case studies, which envision culture as an instrument of organizational
management, can accommodate.
APPENDIX A

FROM: DAVID@GREENLIGHTCAPITAL.COM
From: David@GreenlightCapital.com
Sent: 20 May 2008  12:43
To: Callan, Erin

Erin,
I completely reject the notion that I have been disingenuous with you in any way. Actually, I have been just the opposite. To wit:

When you contacted me after the Value Investors Conference, I immediately gave you the slides to my presentation, even though Greenlight has not publicly released them to anyone else even to this day. I also made myself available at your request that afternoon.

When you contacted me after the Grants Conference and asked for a copy of my speech, I sent it to you immediately.

Prior to our conversation on Friday you knew that we are short your stock and I have discussed our short position at length publicly in two large forums and mentioned it briefly in many interviews. You had no reason to presume that I would not speak about Lehman again, if I had more to say.

You had no reason to expect that our discussion was confidential in any way. In fact, you knew that I do not want to be restricted in trading the stock and I did not request any information that you would not provide to any other investor who asked.

Yesterday, when you requested additional time to get back to me, I forthrightly informed you of the reason for why I believe a timely response is essential. I had no obligation to tell you in advance that I planned to speak about Lehman on Wednesday, but I told you nonetheless. My only goal is to make sure my facts are accurate.

As I told you on the phone on Friday, I judged your answers to the questions to be inadequate. Your only response was to suggest further follow-up, which I await. I will take into account any information you provide into my coming remarks.
I suspect that your claim that I have been "disingenuous" stems from your own knowledge that you may have made untrue statements in our call – presumably repeating untrue statements you have made to other market participants – and you know that I know the statements to be false.

I think it is telling that you accuse me of taking you out of context or cherry picking, prior to even knowing what I will say. I believe it is because you know you made a number of comments on our call that do not stand-up to factual scrutiny. One would expect better from Wall Street's straight shooter.

I think it is to your credit that you have been willing to engage all comers, including me, in discussions. I think that our discussion has helped me get a better understanding of the facts. Unfortunately, this has led me to have a greater concern about the situation and your veracity. I did not decide to discuss Lehman this week until after I was disappointed with your ability to explain your 10-Q.

Erin, the fact is that I believe that your firm is doing an enormous disservice to our financial markets. Rather than follow the course of most of your peers and take your write-downs, acknowledge your capital hole and seek out a recapitalization – Lehman continues to insist that it is profitable, doesn't need to raise capital, has hedged etc. In fact, you have aggressively added assets into the crisis (July-February) and diminished your capital through aggressive buybacks and dividend increases. It would be much better if you reduced your risk for yourself and the financial system at large.

You and your management seek and receive press for your expert crisis management skills – which from my perspective mostly means denying the reality of your balance sheet and calling for investigations of short-sellers who have the temerity to think for themselves.
I have the following additional questions and facts (please confirm the items not stated as questions) I'd like to check (again, please do not provide me with any information that you would not provide to any other investor), in addition to the open items (the follow-up on the [collateralized debt obligation] write-down, the KSK [Energy Ventures] valuation, and how the Level 3 gains/losses turned from a $875 MM loss to a $228 MM gain between the conf. call and the 10-Q):

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APPENDIX B

“LEHMAN TO BE ACQUIRED BY TOOTH FAIRY”
Breaking News:
Lehman To Be Acquired by Tooth Fairy

The market responded with enthusiasm to reports that the Tooth Fairy has agreed to acquire Lehman. The purchase price has not yet been determined and will be set by Dick Fuld wishing upon a star, clicking his heels three times, and being transported back to that magical place where Lehman still sells for over $70 per share.

In related news, Lehman has agreed to sell all of its level III capital, including CDOs, ABSs, pet rocks, baseball cards, slightly used condoms, and credit default swaps written by MBIA and Ambac. Lehman’s level III capital will be acquired for 150% of its face value by Tinkerbell, who will carry it off to Neverland to be fed to a crocodile.

Lehman is financing 90% of the acquisition at an interest rate that has not been announced; Tinkerbell’s up-front payment consists of a handful of pixie dust, three crickets, and a bullfrog.

Analyst Dick Bove estimates that the bullfrog could eventually be transformed into three princes and a pumpkin coach. The deal gives Lehman no recourse to any of Tinkerbell’s assets other than the Level III capital. If Tinkerbell defaults, Lehman’s successor entity will stick its hand down the crocodile’s throat and attempt to get it to regurgitate. The firm’s historical value-at-risk analysis shows that sticking your hand down a crocodile’s throat is completely safe.

Treasury Secretary Hank Paulson issued a statement: “I am delighted that SWFs (Sovereign Wealth Fairies) continue to express confidence in the terrific values represented by American financial institutions. As I have been saying since August of 2007, this shows that the crisis is now over.”

Meanwhile, the SEC has announced an investigation of mean, evil, bad short-seller David Einhorn. While out for a beer with a friend, Einhorn reportedly suggested that the Tooth Fairy does not exist and that wishing upon a star is not a wholly reliable price discovery mechanism. Christopher Cox, chairman of the SEC, said, “Vicious rumors attacking the Tooth Fairy will not be tolerated. Our entire financial system and indeed the American way of life depend on the Tooth Fairy and wishing upon a star. How else could one value level III capital appropriately?” The SEC is reportedly planning to set up re-education camps for short-sellers.
BIBLIOGRAPHY


VITA

William Howard Burr is a native Chicagoan and habitual graduate of Loyola University Chicago, where he previously completed a Master of Arts in Sociology, Bachelor of Arts, and Bachelor of Business Administration. He studies organizational behaviors during crises and the role of organizational culture in group decision making.