

Andrei Stefan A1

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Introduction

In 2008, a global financial crisis occurred that was a severe worldwide economic crisis that occurred in the 21st century (Ozili, 2020). This crisis was the most serious crisis that took place since the great depression that took place in 1929 (Rba, 2023). The economic crisis started in the US but spread across the globe. A financial crisis occurs when financial assets and instruments decrease in their value significantly. This causes business to meet their obligations regarding the financials. Moreover, financial institutions such as banks lack the physical cash and convertible assets for funding essential projects to meet immediate needs. One of the shortcomings that were revealed due to the financial crisis is in corporate governance (Oecd, 2023). Corporate governance is referred to the way businesses are governed and for what purpose. Therefore, it is a system of rules, processes and practices through which a company is controlled and directed (Cgi, 2022).

Identification of the key events of the 2008 global financial crisis that affected Multinational Corporations (MNCs)

The two key events of the 2008 global financial crisis have a significant impact on multinational corporations. First is the failure of the investment bank Lehman Brothers in September 2008 and the second is the collapse of Bear Sterns during the 2008 financial crisis. Over the years Lehman was able to survive several crises including the great depression and world wars but the collapse of the US housing market ultimately brought it down. The prime culprits of this collapse were that the company along with others branched into mortgage-backed securities and collateral debt obligations (CFI, 2023). Leading to that between 2003 and 2004 when the US housing bubble was at its peak the company acquired five mortgage lenders which specialised in Alt-A loans. These types of loans allowed the borrowers to receive loans without providing full documentation. This led the company at the beginning to post profits between 2005 and 2007 making their stock price reach its peak of 86.18 dollars per share. But as the US housing market began collapsing it led the borrowers to default on subprime mortgages. Moreover, in August 2007 credit crisis erupted which forced the company to shut down its BNC units and remove around 1,200 mortgage-related jobs.

Finally, in the second quarter of 2008, Lehman announced that the company occurred a loss of 2.8 billion dollars (Sevenpillarsinstitute, 2018). After this, the company took several measures but it was too little and too late, in September 2008 the company's stock plunged by 77% and 45% subsequently in its first and second weeks. Finally, on September 15 the

company declared bankruptcy and that day itself its stock plunged 93%. Therefore, the bankruptcy of the company led to an approximate loss of twenty-six thousand employees around the world and investors suffered losses. Lehman Brothers is a major issuer of short-term debt in the form of commercial paper. Therefore, its collapse caused a credit freeze which led to a decrease in both consumer spending, as well as exports to the US, was also severely affected manufacturing, job growth and the flow of goods. Moreover, this also made the stock market plunge leading to every company's stock decrease resulting in a global economic downturn.

Bear Sterns was a global investment bank that was located in New York (Markiewicz, 2020). Before the financial collapse, the business was one of the well-regarded financial institutions. The reason for its fall was also due to its fund's exposure to mortgage-backed securities and various other assets that are not right. As these assets were bought with a high degree of leverage. This made the company have insufficient liquidity to open its doors, forcing the company to approach the federal reserve bank of New York for a loan of 25 billion dollars. But when denied the company approached JP Morgan who then bought the company at 10 dollars per share which was a significant drop from the price its stock had before the crisis.

The extent to which corporate governance weakness is the reason behind the failure

The five basic principles of corporate governance are accountability, awareness, responsibility, transparency and impartiality (Byrne, 2023). Responsibility is a two-way street between the directors and stakeholders. The directors as well as the shareholders are in a job and the directors are answerable to them. Importantly a board is responsible for fulfilling the wishes of its shareholders. Accountability is also necessary as any decisions that are made by the boards, they should be able to back it up as the important decisions would lead to questions. Awareness is one of the pillars for the survival of any company knowing about the risks it might face is essential. Impartiality is important because the company could always focus on the correct business decisions not bringing in the personal interests of any other that might affect the decisions and lead to inefficient business decisions. Transparency is an essential principle as not following it could lead to legal and reputational risks as well as a decrease in trust among the stakeholders (CFO, 2023).

An organisation's corporate governance fails when it has ineffective governance mechanisms, non-independent board and audit committee members, ignorance by the auditor, analyst and regulators of the red flags and financial results, insufficient attention to risk management, inefficiencies of internal audits, poor ethical leadership, fraud and corruption. Therefore, due

to the failure of corporate governance organisations might face a loss of shareholder's confidence and trust, no-risk management, difficulties in raising capital and increased government oversights. Using the stakeholder theory of corporate governance one is able to analyse why corporate governance is important and what are the key stakeholders of a business. The theory focuses on what are the effects of corporate activity on all identifiable stakeholders in an organisation (Pinto, 2019). The stakeholders are divided into two categories internal stakeholders and external stakeholders (Seroka- Stolka and Fijorek, 2020). Internal stakeholders are the corporate directors and employees. The external stakeholders are the creditors, auditors, customers, government agencies, suppliers and the overall community. According to researchers Lehman Brothers, collapse is often cited to occur due to the failure of corporate governance as the internal stakeholder namely the board had poor oversight. Tough according to the x-CEO of the company Richerd Fuld, the company had over 27,000 risk managers whose responsibilities were to oversight and provide advice to the company (Chernov and Sornette, 2020). Therefore, despite them, the company collapsed and many observers believed that the company should not have taken excessive debts and the board of the company should itself have carefully monitored the strategies and risk management. Of the independent directors that were in Lehmen, only 8 out of 10 directors met the independence standards of the NYSE in 2006, though they didn't have much expertise related to the finances and they also failed to monitor the company reliably. One example of poor practice is that the finance and risk committees only met two times in a year on the other hand the audit committee met 7 times and the compensation committee met 8 times. On the other hand, by having certain control mechanisms and corporate governance in place the company failed because the company was dominated by the CEO of the company and he never listened to his board of directors and followed the profit maximisation path. By 2008, the assets Lehman had was 680 billion dollars s but it was only supported by just 22.5 billion dollars of the capital firm. The transparency, integrity and ethics of the company were also not effective which is essential for creating value one example of it is that the company had a standard method of financing which is through a Repurchase Agreement. Usually, repurchase agreements are used by businesses historically for managing their short-term need for cash but at Lehman, it took a significant spin and this was designed to make the company's balance sheet look healthier than it was.

The traditional theory of capital structure states that when the weighted average cost capital is decreased and the assets market value is increased a structure of capital that is optimal exists. As Layman followed it one of the disadvantages of this was that to achieve the lower WACC the company had to increase depth which turned out to be problematic. The corporate valuation model begins by identifying the value of the company, the value of the operations, current value and growth opportunities, non-operating assets, goodwill and brand value and

managerial entrenchment. Therefore, the formula is quite simple for the corporate value model it is the value of a business equals assets minus liabilities. For Lehman Brothers, before the financial crisis began the market capitalisation was nearly 60 billion dollars but due to poor corporate governance, the company failed and was forced to announce bankruptcy (CFI, 2023).

Conclusion

From the above study, it can be concluded that the global financial crisis that took place in 2008 was a crisis that was the biggest since the great depression took place in 1929. The two ³key events of the 2008 financial crisis that affected MNCs were the bankruptcy of the Lehman Brothers and the collapse of Bear Sterns. Moreover, the study also identified that to a great extent, poor corporate governance is the reason behind the failures of the corporates.

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