

Business

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Business Case Study 27th, January Case Study Coping with the Financial and ethical crisis at American International Group (AIG). This case study is interested in establishing the reasons and circumstances that led to the fall of the International American Group company. This is a point of concern because AIG was in the past, ranked among the world's best performing insurance companies. Its closure in 2008, before the government bailed it out, happened in a period when the United States and other world regions were experiencing financial heat, because of the financial crisis that had rocked the world. However, the company had itself it blame for its downfall, since the management did not practise caution in running the company, neither did they develop effective business strategies that would see the company withstand any financial storm (Ferrell, Fraedrich & Ferrell, 2013). This case study therefore, raises different issues concerning AIG, its business practices, and its downfall. From its history, AIG was considered a competitive company, having a market value of approximately \$200 billion in 2007. However, this changed in 2009 when the market value of this company sharply declined to only \$3.5 billion. The government in 2008 came in to rescue the company from facing total bankruptcy. This was an important move by the government, as it saved other companies, which depended on AIG, from facing equal bankruptcy. The AIG was a big player in the financial market; therefore, total bankruptcy would have worsened the 2008-2009 economic turmoil (Ferrell, Fraedrich & Ferrell, 2013). The factors that led to the decline of the AIG are analysed, and these mostly include internal factors in the company. First, the company was involved in risky business operations that were not based on long-term financial gains. The company specialized in derivatives, complex contracts, and other complex

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financial products, which resulted in big losses. In addition, the philosophy of the top management and the corporate culture of the AIG were influential in its downfall, and the overall 2008 economic meltdown. The final result shows that, a type of derivative called the credit default swaps (CDSs), which AIG used as an insurance policy was the core of AIG's downfall. The management of AIG after CEO Greenberg carries the blame for the company's downfall. Introduction of employment contracts, severance retirement packages, and selling of the company's stock share, were all contributing factors to the downfall of the company. Additionally, the reduced interest rates, excessive financial risks, and poor decisions by the management also resulted in the company's decline (Ferrell, Fraedrich & Ferrell, 2013). The culture of AIG was highly shaped by Maurice Greenberg, the longest serving CEO of the company. He was the best performing CEO who served for 38 years, until his resignation in the 2005 on ethical grounds. Afterwards, AIG has had three different CEO's. The new management led the company to have little accountability and transparency in their business operations, which is lethal to a company. This was with regard to the derivatives, which the company knowingly knew were potentially harmful, yet convinced external auditors that these posed no threat at all to the company. Additionally, employees were not made accountable for major decisions, and this saw the company operating in a reckless manner (Ferrell, Fraedrich & Ferrell, 2013). A stronger ethics program would have saved AIG great loses. However, the management did not invest in this, yet all companies must prioritize this. AIG did not make its executives responsible for their poor decisions. If the company would have insisted on employee accountability, the executives and other employees would have been more careful to make good decisions,

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which would not result in losses. However, AIG did the opposite of this, by developing attractive reward systems for its executives, who continually made wrong decisions for the company, leading to its downfall. AIG should have conducted its business differently to prevent its financial failure and the bailout. The company would have avoided too much risk-taking, as this is unhealthy to any company. A mistake that the AIG made was selling the credit default swaps (CDSs) to big institutions, when it did not have enough finances that would cater for the post modest margin. The company also got involved in mortgage lending to financial bodies with insufficient finances to cover the loans, thus increasing its financial instability. The company needed to conduct financial assessments for the different companies it sold insurance policies to. Additionally, adopting a good management, that puts the company interests first, by ensuring accountability of employee decisions, would have saved AIG from the many wrong decisions made by its top employees, which resulted in its decline.

References Ferrell O. C., Fraedrich, J., Ferrell, L., (2013). Business Ethics, Ethical Decision Making and Cases. 9th Edition. Mason, OH: Cengage Learning Case Study 2: Sustainability: Ethical and Social Responsibility Dimensions Companies operations and decisions influence the natural environment. Therefore, companies today are required to adopt operations that influence natural environment positively, without causing harm to it. This is through environmental policies they should adopt, which will ensure their social and ethical responsibility in the sustenance of the environment. This case study addresses the issues, as well as risks in developing strategies that influence the environment. If these are identified, then an individual or an organization will develop responses that ensure environmental sustainability. Issues

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relating to ethical and social responsibility are the major focus of this case study. These include atmospheric issues such as global warming and air pollution. Water pollution and quality, land pollution, waste management, deforestation, and biodiversity, are other important environmental issues raised. Additionally, genetic engineering, a controversial issue in the contemporary world, is also addressed. All these are crucial issues that affect the environment, thus, companies and individuals must take a collective responsibility to ensure that the decisions they make do not influence the environment negatively (Ferrell, Fraedrich & Ferrell, 2013). To ensure environmental safety, the study analyses some strategies, which companies could adopt to achieve environmental sustainability. These include positive actions such as green marketing, and other ethical issues. With regard to environmental sustainability, quite a number of companies have implemented their environmental responsibility, ensuring that their decisions influence the environment positively. However, the commitment levels of companies to environmental responsibility vary, which is why, there is still a gap in environmental sustainability today (Ferrell, Fraedrich & Ferrell, 2013). The final result indicates that many firms today are compelled to adhere to their social responsibility in environmental sustainability as a requirement by their shareholders. Although commitment to this responsibility varies among companies, most choose to perform this, as is cost saving and helps them utilize provided opportunities, while maintaining good relations with their stakeholders, thus boosting the safety of our environment. The main issues relating to sustainability in society today mainly revolve around decisions individuals and companies make with regard to environmental sustainability. For instance, if a company decides to adhere and be committed to its social

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responsibility, it will adopt strategies that promote environmental sustainability. Ethics is important for a company to promote environmentally friendly practices. These practices are ones that will least promote any type of pollution in the environment, and overall environmental degradation. Companies committed to environmental sustainability will conduct Stakeholder assessment, to identify the environmental concerns of all stakeholders. Part of this process involves green marketing, whereby a company maintains good relationship with its customers without jeopardizing the environment. In future, adoption of alternative energy sources might be necessary, considering the current heights of global warming (Ferrell, Fraedrich & Ferrell, 2013). Among the alternative energy sources mentioned in this case, hydropower is the most viable one. All energy sources have advantages and disadvantages; therefore, this energy source too has its negative side. However, it is the most suitable for minimizing environmental decadence. Hydroelectricity is known for its limited emissions of greenhouse gases, which are major pollutants in the environment. Although it might disrupt aquatic life, this remains the most viable alternative energy source (Ferrell, Fraedrich & Ferrell, 2013). It is wrong for companies to exaggerate environmental claims in order to sell products. This is unethical and unacceptable. Greenwashing today has become a common ethical issue, with the increase of green products. Some companies practise this, as it is a way of boosting their sales. However, this is risky, because if such a company is exposed, it may lose many of its customers. Besides, this is lack of business ethics, as wrong information about a product is passed on to an unsuspecting customer. Authorities should therefore take tougher measures to deal with this, as currently, this has not been addressed accordingly.

References Ferrell O. C., Fraedrich, J., Ferrell, L., (2013). Business Ethics, Ethical Decision Making and Cases. 9th Edition. Mason, OH: Cengage Learning