Aig case – college essay

1. What, if any, were the relevant institutional voids in China? The relevant institutional voids for AIG in China were: 1. Macro level political and social context- media and non-governmental institutions had very little influence, but the government did, there was a political power monopoly. 2. Macro level openness of the economy – the Chinese economy lacked openness to foreign direct investment. 3. Product markets – there was weak property right protection, in the Chinese market there was no well-established distribution network, and there was a lack of marketing/research intermediaries. . Labour markets – China had only a few agents with experise in insurance, there was a lack of expertise in the labour force. 2. Based on the framework developed by Khanna et al. , what types of strategies should foreign insurance companies pursue? What did AIG do to cope with the institutional voids? According to Khanna et al. foreign insurance companies should use option one: adapt to the host country, keeping its own core dominant logic. This may inspire other companies to do things the same as they prove to be successful.

For instance: AIG introduced the agency distribution system to China and nowadays this system is widely adopted by most insurance companies What AIG did to cope with the institutional voids: 1. Macro level political and social context – AIG build relationships, such as a strong political network. By for example visit the country often and make investments, ’AIG opened an infrastructure fund and soon started its first project in Shanghai. ’ 2.

Macro level openness of the economy – in order to build FSAs in China AIG set up a joint venture with PICC, this contributed to the development of the relationship between State Council members and AIG and between deputy prime minister and AIG. 3. Product markets – AIG introduced the agency distribution system to China, it learned about the market and the culture, and it tailored its products to the Chinese market. 4. Labor markets – ‘ AIG made substantial investments in training its agents’ 3. What were AIG’s FSAs developed in China?

AIG developed a couple of FSAs in China. The FSAs it developed consisted mainly of downstream knowledge and reputation. We believe that one of the FSAs that AIG developed in China is trust of Chinese politicians, which led to favorable government relationships. AIG gained this trust by putting a lot of effort in building it. Greenman (AIG’s CEO) visited China several times, AIG made a big investment in the Shanghai Center Office-Residental Complex and brought a missing relic back to China by buying it.

The latter also contributed to the development of AIG’s second FSA in China: a good reputation. Not only the politicians found this a nice gesture, but also the general public at large. Another FSA AIG developed in China was its ability to adapt their products to the Chinese market. “ As many Chinese customers view life insurance as bringing bad luck, AIG designed endowment policies (..) and marketed these policies as savings instruments rather than insurance policies. Due to the big investments in training its workers and a commission-based compensation system AIG developed a skilled and motivated workforce. And the final FSA: with help of AIG’s history (knowledge), the Joint Venture and other partnerships AIG was able to understand the local market and culture. What non-location-bound FSAs had been transferred to China? The non-location-bound FSAs AIG transferred to

China were its expertise (know-how) in insurance that includes its ability to train insurance agents.

This was what AIG did in China. It also already had international experience in expanding to other countries, they for instance also did it in Asia. Another non-location-bound FSA transferred to China was AIG's human resource: Maurice Greenberg. He has played a huge role in building relationships in China and AIG has benefited grandly from him. What first-mover advantages did AIG reap in China? AIG reaped several first-mover advantages in China: It was able to develop favorable government relationships, as mentioned above. •It was able to dominate niche markets, because there was no fierce competition at that time. It could also " apply so-called grand-fathering provisions to protect its existing rights" which gave AIG permission to set up wholly owned subsidiaries. •It was able to reach a minimum efficient size ? lower costs than competitors ? high profit margin. 4. How did AIG combine the use of its location-bound FSAs and non-location-bound FSAs in China?

AIG has the knowledge about how to run a successful insurance business and it developed a strategy, which consisted of five rules, how to get into new upcoming markets. These are transferable FSAs, but AIG needed location bound FSAs in order to be able to make use of the non-location-bound FSAs. Because, if AIG did not have the relationships and reputation it had in China (location-bound FSA) it would not be able to use their transferable FSAs, the knowledge about how to run a successful insurance company, as they would not have been able to set up a company in the Chinese market.

The other way around proves that AIG needed the transferable FSAs as well. Because, if AIG did have the relationships needed to set up a company, but it did not have to knowledge about how to run a successful business, the business would go bankrupt within a short period of time. Therefore, AIG combined its location-bound FSAs with the non-location-bound FSAs in order to create a successful business.