Coping with financial and ethical risks at american international group essay sam...

Finance

American International Group, Inc. (AIG) reported bogus transactions that hid losses and inflated its net worth. AIG inflated reserve funds that were to be used for paying claims by millions of dollars and that AIG's CEO Maurice Greenberg repeatedly directed AIG traders late in the day to buy AIG shares to prop up its price. However, aside from AIG's corporate financial reporting errors or outright fraud, the companies ethical culture begin to fail because the company seemed to have a decentralized organization. A mix of Individual divisions and departments recklessness and power to define their own corporate governance, and a CEO who was secretive and manipulated the numbers, all were a formula for an unethical corporate culture.

Coping with Financial and Ethical Risks at American International Group (AIG)

Discuss the role that AIG's corporate culture played in its downfall? The first question asked about how this whole debacle happened. I agree their corporate culture played a major role in its downfall. However, the bigger picture was how quickly everyone, and I mean in the end everyone, all the stakeholders, which in the end the way these complex theories of how to make air collateral, never got any real explanation on why it was allowed to happen when in the end some profited, but most lost, and lost really big. According to Bethany McLean and Joe Nocera, two of America's most acclaimed business journalists, The financial crisis blame had several players. From greedy traders, misguided regulators, sleazy subprime companies, spineless legislators, and clueless home buyers, the list is long and depressing the more you read (McLean & Nocera, 2010). However, because of AIG occupied such an important role in the financial system. It became one of the companies that once the curtain was pulled back, the signs of imminent disaster were evident, and substantial. At its peak, American International Group (AIG) was one of the largest and most successful companies in the world boasting a Triple-A credit rating, over $1 trillion in assets, and 76 million customers in more than 130 countries (Cassady, C., 2009).

The corporate culture at AIG was one with a poor management structure, combined with a lack of regulatory oversight. led AIG to accumulate staggering amounts of risk, especially in its subsidiary, AIG Financial Products (AIGFP) (Wickham 2009). AIGFP’s obligations were guaranteed by AIG’s triple-A rating, which facilitated borrowing at low interest rates. Ultimately, however, it made it difficult to isolate AIGFP from its parent, with disastrous consequences (Cassady, C., 2009). Leadership, after leadership change, even after regulators were suspicious of the assets reported, throughout the ranks, risk taking and unbridleled self interest was rampant. The corporate culture was reward the riskiest of risk takers. In the end AIG, was exposed along with other financial companies and banks. On the evening of September 16, 2008, the Federal Reserve Bank’s Board of Governors announced that the Federal Reserve Bank of New York had been authorized to create a 24-month credit-liquidity facility from which AIG could draw up to $85 billion (McLean & Nocera, 2010). A later bailout was announced on November 10, 2008. This bailout purchased $40 billion in newly issued AIG senior preferred stock, under the authority of the Emergency Economic Stabilization Act’s Troubled Asset Relief Program (McLean & Nocera, 2010).

The most troubling (if that's even a feasible concept), AIG affirmed its decision to grant bonuses of $165 million (and possibly eventually totaling $450 million) to top executives. AIG reported a net loss of $99 billion for fiscal year 2008. (Cassady, C., 2009). I may never understand some of the complex financial instruments and reasons for how this was allowed to happen. But what I understood like the AIG shareholders and all stakeholders (which now included anyone who paid income tax), was paying for failure seemed counterintuitive. However, there wasn't a day of reckoning. It just became another news story that went away. How a stronger ethics program might have helped the company strengthen the ethics of its corporate culture?

Corporate culture and reliable internal and external communication should help shape the dialogue. Some forum for gaining consensus among stakeholders on core values and goals going forward appears critical keep AIG and other firms healthy. A line of reasoning that a company is aligned with all of their stakeholders and employees. What could AIG have done differently to prevent its financial failure and its subsequent bailout? The more you find out about AIG it seems like everything. Nevertheless, the short answer is more accountability. AIG should have built up trust from the inside out. Holding leadership accountable when they failed, punishing those who acted with a total lack of disregard for their shareholders and other stakeholders, and communicating how they would change the culture and putting those policies into effect, would all prevent this type of failure in the future.

References

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