

# Finance



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07 April 2008 Response to Finance Case Study Questions How good was G-III's management How trustworthy was G-III's management What skeletons could potentially hide in the closet

As the case stated, the management of G-III is still largely held by the family of the founder Aron Goldfarb. Currently, his son Morris Goldfarb is the Director, CEO, and President of the company. Furthermore, his daughter Jeanne Nostra Kratz who acts as the company's Executive Vice President is married to another EVP Carl Katz. It should also be noted that all these executives account for all the 91.9% of the pre-IPO stock and 61.3% of the post-IPO shares. This set-up where ownership and control of the business organization are concentrated in the hands of the Goldfarbs can be detrimental for its financial performance. It should be noted that the selection of the family members for their respective positions are due to their being the relative of the founder and cannot be credited to their skills or experience in the industry. The current poor financial performance of G-III might be attributed to this set-up. Even though some of the important executives of G-III are not family members, the Goldfarbs are still in the highest ranks which place them in the position of making the final decisions even though some lower level executives disagree or might recommend otherwise.

The efficiency of the management team is indicated by the financial position of G-III in comparison to other industry players. The case stated that in general, G-III has expanded market share from 2% to 10% with a compounded increase in revenue of 68% from 1986-1989. The market has grown faster at a rate of compounded 75% making G-III quite slow to respond to market expansion. Financially speaking, most of the company's

resources are financed by riskier short term debt instead of long-term ones. As G-III is cash strapped, the company is illiquid and cannot pay its current obligations if they become due immediately. It also becomes apparent that the remedy for this will be from the capital which will be raised from the IPO. This is quite risky noting that investors who are informed about this financial position will be hesitant in shouldering the risk of buying stocks. In addition, also have problems on its creditors which indicate of its very weak management strategy.

The facts discussed above indicate some loopholes in the business organization's management team. It can be concluded that even though the Goldfarb's should be noted for their capital contribution, it is not adequate for them to run a company. G-III needs a management team which earns their credibility through their experience and exposure in managing high profile businesses in the leather and apparel industries. Having no separation between control and ownership can lead to some anomalies and manipulation of financial information presented to the public. Also, the presence of the company's auditor in its executive committee is also very controversial. The most probable skeletons in the closet for these situations are high probability and event of distortion of financial information in order to bid up the price of G-III's stocks.

#### Bibliography

Hicks, Steven. " Foundations Study Guide: Business Guides." The Atlas Society. 2006. 06 April 2008