

Case study- malden mills

Business



1. List the pros and cons of Feuersteins decision to spend \$25 million to pay his employees in the aftermath of the fire. In what ways did this decision both benefit and harm Malden Mills?

The decision made by Feuerstein to spend \$25 million to pay his employees in the aftermath of the fire was a very unusual corporate decision. The firm did not have any obligation whatsoever to pay the employees after the fire. The fact that the owner was willing to rebuild the business in the same location instead of cashing out and retiring was a courageous act in itself. The decision to pay \$25 million had negative effects in the cash flow of the company. The lost of continuity with the clients cost the firm a lot of business as the customers went elsewhere for their apparel needs. The \$25 million payment in payroll was bad for the company because it forced the firm to pay additional debt in the long run which raised the fixed costs of the company (Fina-lib, 2011). A good aspect about the decision was that that company built a reputation with the government, private industry, and general public that helped the company in the future land a \$19 million U. S Department of Defense manufacturing apparel contract.

2. Imagine a scenario where you are the president of Malden Mills. What do you think you would have done after the fire? Write a paragraph describing your action plan.

My decision after the fire would have been either to retire or to move the operations to a foreign country that offered lower operating costs. Feuerstein did not consider the implications of the potential of losing a lot of customers after the fire. Many of the customers that left could not be recovered because they entered into contractual obligations with other manufacturers. If one of the vision's of the company was to keep the operation in America I

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would have followed the firm's vision, but the operation would have been reopened at a smaller scale through the implementation of a downsizing initiative. The firm would have lost between 20-40% of its employees and under no circumstance would I have turned the firm into a social agency by paying free salaries from the money that should have been used to reconstruct the business.

3. Write a paragraph describing Feuersteins philosophy of human resource management.

Feuersteins philosophy of human resources was that the employees of the company were the most valuable asset the firm had. Retaining and developing human capital was a top priority of the firm. The company had a human resource philosophy that is aligned with the Japanese philosophy of lifetime employment. Feuerstein's believed that the well being of the employees was his responsibility.

4. Before the fire, Malden Mills was a privately held company, owned by Feuerstein. After the fire, Feuerstein had to borrow money from different creditors in order to rebuild his business. Please answer the following:

- What is the difference between a privately owned company and one that is publicly owned?

The difference between a privately owned company and a publicly owned company is that private companies are owned by an individual or a small group of individuals that control all the equity. The equity in a publicly traded company is sold in the stock market, thus the owners of the common stocks are the owners of the company (Investorguide, 2011). A public company must have a board of directors and the management team should not include a majority owner.

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- What was Feuerstein able to do when he had private ownership over Malden Mills that he couldn't do once he sold equity to creditors?

The decision of paying \$25 million in payroll obligations during an operation shutdown due to a fire could be done under private ownership, but once the equity was sold to the creditors such a move would not be approved since it is fiscally irresponsible.

- What are the costs and benefits of debt financing?

The cost of debt financing includes that it raises the fixed costs of a company and that it increases the expenses of a firm due to interest cost. A benefit of debt financing is that it gives a company access to large sums of capital without losing control of the decisional power.

5. Many would describe Feuerstein as an ethical businessperson. Explain why he developed this reputation.

The reputation Mr. Feuerstein received as an ethical person is very well deserved. The invention of a green product such as the Polartec showed how much he cared about the planet and the environment. The human resource philosophy and the loyalty he showed to his employees during the most difficult challenge the firm ever faced after the fire is sheer evidence of his high moral and ethical standards.

6. Brainstorm three concrete ways that Feuerstein's reputation as a benevolent leader has helped his company.

Feuerstein's reputation helped the firm in numerous ways. First it helped the company increase the employee retention and overall productivity of the workers. Secondly the company was able to obtain a multi-billion contract

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with the U. S Department of Defense. Thirdly the company improved its brand value and attracted new customers.

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