



Radio Shack: You've Got Mail

Teaching Note

Purpose of the Case Study

- To depict a case in which a corporation has made a communications decision that contradicted its stated values and negatively affected both its employees and reputation;
- To encourage corporations to carefully examine the means of communication it chooses when communicating sensitive information to its stakeholders;
- To demonstrate the necessity of developing standard communication procedures so that the organization remains true to its values and respects its stakeholders.

Identify the Business Problem

RadioShack is a consumer electronics goods and services retailer that operates over 4,460 retail stores in the U.S., Puerto Rico, and the Virgin Islands. In addition to the RadioShack store chain, the company also operates nearly 800 non-branded kiosks offering wireless handsets and accessories as well as direct to home satellite services, over 1,500 dealer outlets offering both RadioShack and third-party products and services to those who live in smaller markets, and an e-

This case was prepared by Research Assistant Ashley Frankart under the direction of James S. O'Rourke, Concurrent Professor of Management, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Information was gathered from corporate as well as public sources.

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commerce web site, www.RadioShack.com. The electronics goods industry is full of competition and RadioShack is currently third in the U.S. market behind big box stores Best Buy and Circuit City. The company is headquartered in Fort Worth, Texas and had approximately 40,000 employees at the end of 2006.

In the past several years, RadioShack has undergone a series of executive management changes, including ten new appointments to vice presidential and c-suite level positions since 2004. The most significant change in the executive-level shuffle of employees is the instability in the CEO position: Leonard Roberts, David Edmondson, and Julian Day have all reported for the position in the last two years. While Roberts left the position to join the Board of Directors, Edmondson was asked to resign after his confession of falsification on his resume. The executive level turnover is above average, as a study by Drake Beam Morn estimates that only two-thirds of the world's companies have replaced the CEO in the last five years. Executive leadership is vital to the success of the company and the recent swaps have left the organizational direction and level of commitment to its values unclear.

The change in management and the intense competition in the marketplace have not gone unnoticed in the company financials. RadioShack's stock price had been underperforming and both its 2005 and 2006 Annual Reports contain letters to shareholders that are apologetic in nature. (See appendix for select financial data.) Management realizes its obligation to increase the firm's financial performance and has laid out a turnaround plan with the following objectives: increase average unit sales volume, rationalize the firm's cost structure, and grow profitable square footage of retail space. In describing how the goals will be attained, management addresses the consolidation of distribution centers, reallocation of resources among RadioShack stores to reflect profitability, updating the inventory and product line offerings, and reducing overhead costs.

The public's initial response to Day's appointment as CEO and the turnaround plan was positive and RadioShack was given the confidence to move forward with the plan. Just days after becoming CEO, he announced that there would be a series of massive layoffs in order to help 'reduce overhead costs' and help the firm "rationalize its cost structure." (See appendix for a copy of the official press release announcing the workforce reduction.) Employees and the public await the impending layoffs and, on a seemingly normal day, nearly 400 employees were given their termination notice with the following words:

"The workforce reduction notification is currently in progress. Unfortunately your position is one that has been eliminated."

If these words seem stark, then consider their method of delivery: *this message was sent out to the affected employees via their company email account.*

Additional layoffs, distribution center and retail location closings, and the redistribution of resources throughout the organization continue to loom on the horizon as Day puts RadioShack's turnaround plan into action.

Discussion of the Implications of the Problem

There are three main implications of the decision to use electronic workforce reduction as a technique in lowering overhead costs and increasing short and mid-term profitability. First, the decision creates employee trust issues as the stated values of the company do not align with the actions taken. The financial implications of the workforce reduction decision, as shown by the increasing stock price, should be considered. Finally, the financial and performance implications that result from effective employee communication should be addressed.

Employee Trust Issues

RadioShack employees had little time to recover from the realization that their previous CEO had lied to them before additional trust issues arose. RadioShack executives made the decision that overhead costs were among the key drivers of the firm's poor performance and promised its shareholders that the issue would be addressed. In the same document to the shareholders, RadioShack boasts its number one accomplishment to be the ability to "attract, retain, develop, mentor and reward great people . . . our people are the power behind our brand." This seems contradictory when the firm aims its cost reduction plan at hundreds of jobs and continues to try to attract new talent. This creates a lack of trust between employees and management because the messages communicated and the actions taken do not seem to add up.

Another factor in deteriorating employee trust at RadioShack is the decision to terminate the employees affected by the workforce reduction via e-mail. Imagine having your morning coffee and starting your day as usual by responding to the e-mails you received since the last day and finding out that your job no longer exists from a general message that, in a click of a button, was sent to you and nearly 400 other people. While the firm argues that employees were informed of the method of delivery ahead of time, it is against general human resource management practices and lacks the personal delivery and emotional consideration that a sensitive message, such as a termination notice, deserves. RadioShack completely ignores sensitivity and candor, two of the most vital characteristics of employee communications, in this communications decision. It also renders hollow the claim that RadioShack's "communication processes make great thinking possible" for both employees and the public.

Financial Implications of the Layoff Decision

Upon the initial announcement of the streak of layoffs, RadioShack stock price rose from \$16.37 to \$16.62 and has, with the exception of 2006 holiday season, been rising consistently to reach a high of \$31.20. This information confirms investors' approval of Day's turnaround plan and the actions taken to put it in motion. The layoffs produced severances not in excess of 16 week packages to minimize the financial burden on the employer and the restructuring has the appearance of financial success. Any disapproval with RadioShack's tactics in implementing the necessary change has not been reflected in its stock value.

Implications of Effective Employee Communication

While cost cutting is one way to increase an organization's financial performance, it may be short sighted. According to the 2005/2006 Watson Wyatt Communication ROI Study, effective communications are a long term indicator of a firm's financial performance. Companies with effective employee communication strategies and procedures enjoy financial benefits including: an average of 57% higher shareholder returns, over 19% higher market premium, and lower turnover than those firms with less effective communication. RadioShack enjoys making the claim that its communications are effective and a point of differentiation for the firm, however its shortsighted tactics ignore the positive, long-term implications that true excellence in communicating with its employees could produce. The unprecedented emailed layoff notices may have been a time effective, quick fix, but it will not help RadioShack achieve the type of effective employee communications that yield positive financial results.

A List of Critical Issues for RadioShack and its Executives to Address

RadioShack must establish the communications guidelines and procedures it will use going forward. Clearly established procedures will lead to alignment between expectations and actions throughout the organization. There should also be a mechanism for detecting the misalignment of the stated values of the company and the decisions being made. If the company's actions do not support its stated values, either the actions or the values should change in order to be consistent and transparent.

Human resource professionals should be held accountable for keeping RadioShack in line with current HR practices and should advise management during times of workforce reduction. With 400 corporate office jobs affected by the layoffs, HR dropped the ball in allowing the terminations to be dealt with in such an informal and impersonal manner. Finally, the press has publicized the e-mail layoffs as "what not to do" for businesses communicating with their employees. This negativity may put RadioShack's reputation as an employer at risk at a time when it is trying to attract a more diverse workforce to its management team of turnaround professionals.

Identifying Critical Stakeholder Issues

As a result of the internal communications blunder, RadioShack must address the concerns of the various groups involved. Each group of stakeholders must first be identified and then RadioShack can decide how to address all relevant issues. The stakeholders and their issues are:

RadioShack Corporation

RadioShack should be concerned about the implications of ineffective employee communications on the firm. Not only did the incident create negative buzz about the company, but increased employee distrust toward senior management and the organizational values. In trying to turn the company around, RadioShack should be mindful of the long-term financial benefits of effective employee communications while implementing short-term strategies such as cost cutting.

RadioShack Human Resources

Human resource professional at RadioShack may be held accountable for the communications decision since it dealt with an HR issue. Blame may be placed both by those affected and outsiders. Potential effects include the marketability of these human resources professionals as candidates for future HR positions in other organizations as well as general distrust and contempt from employees within RadioShack who place the blame with HR.

RadioShack Employees Laid Off via E-mail

Those who received the e-mail layoff notices were undoubtedly affected by its lack of sensitivity. RadioShack disrespected this group of employees with its communications decision and the full implications will probably never be known. Psychology experts have referred to the emailed terminations as “dehumanizing” which may be the reason those affected do not wish to speak about the event.

Current RadioShack Employees

Current RadioShack employees were spared the first round of layoffs and the emailed notifications but continue to go day-to-day not knowing when more layoffs will occur. There has been no official statement by RadioShack indicating that the next round of layoffs will be communicated to employees in person. Additionally, current employees may have reduced levels of confidence in upper management due to its recent decisions regarding employee communications and how to turn the company around.

RadioShack Stockholders

RadioShack stockholders are enjoying the benefit of rising stock prices as a result of the corporate turnaround plan. However, management's shortsighted tactics may not deliver in the long run, which has the potential to affect stockholders' contentedness.

Human Resource and Communications Professionals

With the amount of information technologies increasing every day, human resources and communications professionals need to be sure to implement procedures for communicating HR related information with employees in the most suitable manner. E-mail may be appropriate for some HR communications but terminations are certainly not one of them. Professionals in these areas must remain mindful of the audience and the importance of the message being delivered when choosing a delivery method.

Suggested Actions for RadioShack's Management

Top management should reevaluate the values and culture of the organization and align practices with what is preached, or vice versa. The layoffs were a result of financial pressures and the firm's obligation to its stockholders. Overhead costs presented a problem and it may be possible that the workforce reduction was the best solution. However, the decision contradicts the values based claims that the company makes to its shareholders, the public, and its own workforce. Whether the values based claims or the actions change is debatable, yet one or the other must change in order to provide credibility to the organization and regain the trust of its employees.

The human resources and communications departments should be charged with the joint task of producing employee communications guidelines and standard operating procedures for change management situations. The team should evaluate the core values of the company and tailor the internal communications strategy to the employee driven culture of the organization.

Implementation and Communication of Those Decisions

How can RadioShack achieve better communication alignment between the messages sent to its shareholders, its employees and the public? How can RadioShack avoid similar communication errors in the future?

RadioShack can keep in mind that in periods of change, the timeliness of communication and implementation is of utmost importance. The taskforce designed to create new communication procedures and evaluate the alignment of values and action should be put

together immediately so that their recommendations can be used throughout the continuing period of restructuring.

Additionally, RadioShack should consider the financial implications of positive employee communications when developing and implementing its turnaround strategy. Short and mid-term gains can be made through cost cutting tactics, but in order to create lasting positive change, the organization has to rely on its people. Effective communication will increase employee's trust of upper management and loyalty to the firm.

Lastly, RadioShack should have immediately admitted to its lapse in judgment when firing employees without taking a moment to inform them in person. Since it did not respond at the time, an apology now may be too little, too late. However, with additional layoffs looming in the near future, the firm might issue a press release offering an official apology to all of the employees let go during the restructuring and especially to those who were affected by the e-mail notices of last August.

Discussion Questions

1. Human resource professionals charge RadioShack's termination method as "dehumanizing" and communications professionals call the communications decision "cringe" worthy. What can be done to ensure that situations like this are avoided in the future?
2. Where does the responsibility for the emailed terminations lie? Senior management? Human Resources? Corporate Communications? Direct supervisors of those terminated?
3. RadioShack did very little to respond to the press's reaction to the e-mail terminations except to say that the employees were made aware that the notices would be delivered electronically. Should RadioShack have done more in response to the negative PR? What would the appropriate response have been?
4. The corporate values state employees as a core competency and yet financial burdens lead to massive layoffs with very little notice. Is there a discrepancy between the firm's values and actions? What steps could have been taken other than those outlined in the turnaround plan? Should layoffs have been the first action taken?
5. Are the rapid changes, throughout the organization and in executive management, to blame for the communications misstep?

6. A few blogs have revealed that some feel that an e-mailed termination notice is an acceptable way of informing employees of their employment status. The reasoning lies in the fact that face-to-face terminations are often awkward because it is an emotional time. Those in favor feel that it may be kinder to allow employees facing termination to have the moment to themselves while offering the option of an in person meeting afterwards, if they so choose. Could this have been RadioShack's motivation for e-mailing the termination notices? Is this something that should be evaluated by Human Resource professionals and possibly put into general practice? Does this explanation give the e-mailed communications the essential sensitivity and candor that termination notices deserve?