A Critical Evaluation of BestBuy Co., Inc.: In Relation to the Impact of the 2012 CEO Scandal on Business and Company Financial Management and Performance

David Condori*

*Universidad Continental, Arequipa, Perú. E-Mail: david_34con@yahoo.com

Abstract--- This study offers a critical evaluation of a recent major issue faced by BestBuy. The evaluation employs decision making and problem-solving techniques to analyze the company's response to the selected problem, as well as recommend some of the alternative methods through which the company's selected problem could have been addressed. The report proceeds further to provide a trend analysis of BestBuy's share prices, especially during the period in which it experienced the problem. The report culminates in the evaluation of the manner in which investors perceived the problem and how BestBuy responded to those perceptions.

Keywords--- Financial Management, BestBuy Share Prices, Decision Making, Problem-solving Techniques.

I. Introduction

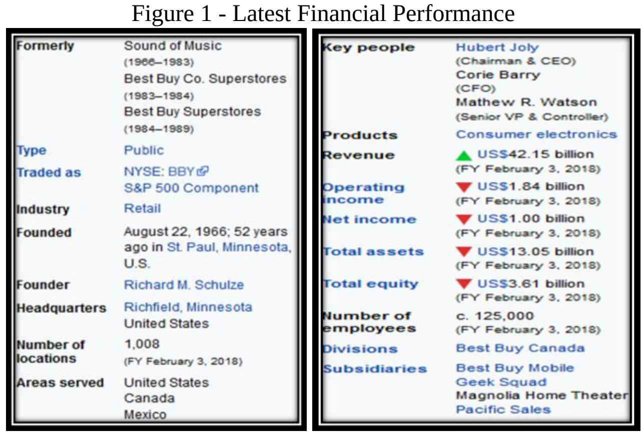
INCORPORATED on October 20, 1966, BestBuy has operations in Mexico, Canada, and the United States (Cox, 2012). The company provides services and solutions, and technology products. Headquartered in Richfield, Minnesota, the company was founded by James Wheeler and Richard M. Schulze.

The company's specific products include electronic equipment and accessories such as adapters, mini fridges, cables, tablets and HDTVs, storage products such as furniture for home theaters, equipment bags, and media storage, and clips and chargers for cell phones, gel skins, and phone cases (Curtin, 2012).

It also offers wearable's such as e-readers and smart watches (Aune, 2012). The mode of operation involves the use of the company's mobile applications or Websites, engagement with Geek Squad agents, and the provision of products and services to customers who visit services, translating into in-store selling (Sottek, 2012).

By December 31, 2016, BestBuy operated 400 small-format and 1,200 large-format stores throughout its international and domestic segments (Sandoval, 2012).

Figure 1 - Latest Financial Performance



Formerly	Sound of Music (1966–1983) Best Buy Co. Superstores (1983–1984) Best Buy Superstores (1984–1989)
Type	Public
Traded as	NYSE: BBY S&P 500 Component
Industry	Retail
Founded	August 22, 1966; 52 years ago in St. Paul, Minnesota, U.S.
Founder	Richard M. Schulze
Headquarters	Richfield, Minnesota United States
Number of locations	1,008 (FY February 3, 2018)
Areas served	United States Canada Mexico

Key people	Hubert Joly (Chairman & CEO) Corie Barry (CFO) Mathew R. Watson (Senior VP & Controller)
Products	Consumer electronics
Revenue	▲ US$42.15 billion (FY February 3, 2018)
Operating income	▼ US$1.84 billion (FY February 3, 2018)
Net income	▼ US$1.00 billion (FY February 3, 2018)
Total assets	▼ US$13.05 billion (FY February 3, 2018)
Total equity	▼ US$3.61 billion (FY February 3, 2018)
Number of employees	c. 125,000 (FY February 3, 2018)
Divisions	Best Buy Canada
Subsidiaries	Best Buy Mobile Geek Squad Magnolia Home Theater Pacific Sales

Figure 2 - Summary of BestBuy's Company Profile

Description of the Problem

BestBuy's recent scandal concerned an issue of corporate governance. The company's former CEO, Brian Dunn, was found to have had a relationship with a 29-year-old female subordinate member.

According to Smith, (2012), this engagement in extremely close personal relationships translated into a violation of BestBuy's company policy, yielding a negative impact on the firm's work environment.

The scandal was compounded by the chairman and founder's quest to cover up the illicit relationship between the CEO and the employee, yet the relationship violated company policy.

The woman with whom the CEO was involved was reported to be Dayna Cline, who, at the time, served at Richfield's BestBuy's leadership training institute. Particularly, she was the Leadership Institute Coordinator (Cox, 2012).

As the scandal emerged, Dunn was married with three sons and resigned from the position of a CEO. Whereas the relationship did not involve misuse of the company's resources, BestBuy's board investigations revealed that it had impacted the work environment negatively. The scandal was confirmed in April 2012.

II. How the Company could have Responded Better

Based on the crisis response strategy that incorporated the rebuilding practice, BestBuy's approach is worth acknowledging and acceptable because it promises future stability and the restoration of the confidence of customers and other stakeholders; having established a consistent and positive workplace environment. However, other strategies were at the company's disposal and could have been utilized to achieve better results.

Table 1 - Proposed Business Management Strategies

Strategy	What was done	What should have been done
Rebuilding	The company focused on its corporate governance policy in decision-making. It also narrowed down on the CEO, the female employee, and the chairman, especially regarding their violations.	Ensuring that a crisis management plan is updated at least once per year
	Furthermore, the company examined contact histories and technological infrastructure to gin crucial leads to the scandal. With concrete evidence obtained, the investigating team recommended steps such as the shareholders' approval of the declassification of the Board in which annual elections would be held to elect directors, as well as hold an election of a new chairman. At the time, the CEO had resigned.	Enhancing the training of its crisis management team to ensure that it embraces timely responses and early detections
		Testing the designated crisis management team and plan at least once per year
Directors support of the investigation team's proposals	A statement by Mr. Tyabji, in support, read, "As a Board, we support the proposal for annual elections as an additional demonstration of our commitment to strong corporate governance practices. Each of us - with no exceptions - will be subject to approval by the shareholders on an annual basis" (Aune, 2012; p. 3)	This statement points to remorsefulness and the willingness of senior leaders and managers to embrace change. However, it only emphasizes the restructuring process at the company but fails to acknowledge the needs of customers and other employees, with satisfaction at stake. Therefore, the company should have incorporated policies seeking to cater to the needs of these latter groups in the post-scandal period. Some of these steps include employee engagement and motivation programs and improvements in customer relationship management. Some of the companies that have used the latter strategies and countered scandals successfully include Wal-Mart and Target Corporation, which have had credit card scandals. Thus, BestBuy could embrace a similar move.

Notably, the CEO-employee relationship scandal prompted BestBuy to respond with the aim of restoring or rebuilding its image with the stakeholder groups. Whereas the SCCT model proved successful in terms of enabling the company to understand the ideal crisis response strategy that promises to maximize reputational protection, it comes with weaknesses.

For example, the model's emphasis on considering crisis history as a factor for establishing solutions fails to acknowledge possible changes with time, upon which workplace factors prevailing in a previous environment might differ from a current situation.

The model fails to explain this potential disparity and its effect on crisis response strategy (Pang, 2012).

Stock Market Analysis

This section summarizes the investors' reactions and share price following the 2012 CEO scandal at BestBuy.

III. Share Price Trend Analysis and Investor Reaction

Figure 3 - Summary of BestBuy's 2012 Share Price Trend Analysis

Interpretation

As highlighted above, BestBuy spiraled downward in 2012. Apart from cycling through two CEOs, the company was also fighting against major rivals: Wal-Mart and Amazon. The downward trend also came at a time when Richard Schulze was keenly campaigner to ensure that a leveraged buyout is realized to take the retailer private. However, the campaign proved futile. As such, the company's shares fell by 47%, with the scandal proving negative to investors. The situation did not improve in the following year, as illustrated by the five-year comparative trend below.

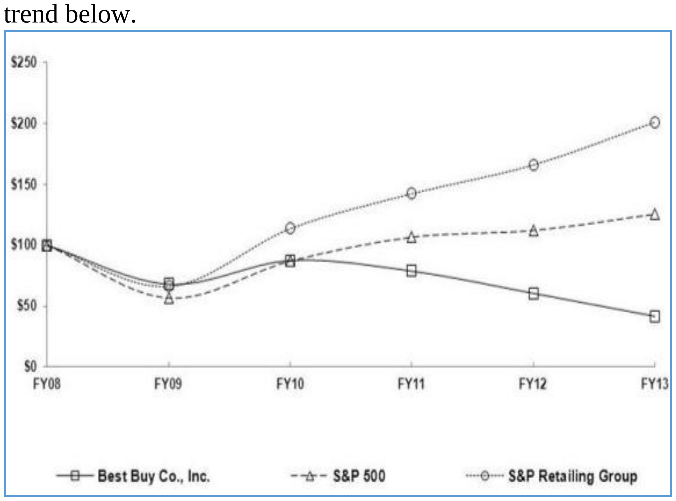


Figure 4 - A Five-year Comparative Analysis Shows BestBuy's Performance before and after the CEO Scandal

Prior to the scandal, BestBuy's market performance relative to investment was as follows:

Revenue

	Three Months ended March 3, 2012			Prior-Year Period
($millions)	Revenue	Change YOY	Comp. Store Sales	Comp. Store Sales
Domestic	$12,600	4.2%	(2.2%)	(5.5%)
International	4,030	1.1%	(2.9%)	(1.7%)
Total	$16,630	3.4%	(2.4%)	(4.7%)

Gross Profit

	Three Months ended March 3, 2012		
($millions)	Gross Profit	Change YOY	% of Revenue
Domestic	$3,015	2%	23.9%
International	1,042	6%	25.9%
Total	$4,057	3%	24.4%
Adjusted gross profit – Domestic	$3,034	3%	24.1%
Adjusted gross profit – International	1,042	6%	25.9%
Adjusted gross profit(3)	$4,076	4%	24.5%

Figure 5 - BestBuy's Performance before the CEO Scandal

From the figures above, it is evident that the CEO scandal affected BestBuy's share price negatively, posing a further negative effect on investor interest. From the comparative analysis in figure 10, it is also evident that the impact was long-term because the downward spiraling went beyond 2012/2013. To handle this crisis, the previously recommended strategy of embracing regular employee feedback and involving the workforces in early detections of crises forms an informed step through which the company's positive reputation or brand image might be realized or maintained.

IV. Conclusion

This study has focused on the CEO scandal at BestBuy, which occurred in 2012 and led to Brian Dunn's (the CEO) regulation in April the same year. Also, the scandal saw the company's chairman come under intense pressure and criticism for having gained knowledge of the CEO's relationship with a female employee as early as December 2011 but failed to report to the audit committee. As such, the chairman also resigned. From the figures above, the scandal came at a time when BestBuy's stock market performance was not promising, but the situation even exacerbated this trend, revealed by the comparative analysis with other selected companies. Overall, the report has provided crucial insights into decision-making techniques and models that could be employed when a company faces a crisis; especially relative to BestBuy's 2012 CEO scandal.

V. Recommendations

Whereas BestBuy embraced the SCCT theory and transitioned successfully, it could have done better via the incorporation of the FOCUS Model, which is more structured and unlikely to be marred by the employees' or task forces' confusion of roles. It is also recommended that the company engages its employees in regular feedback provision to detect possible crises in time. This step is recommended because the audit committee's interviews with former and current employees (at the time) revealed that the workforces had adequate information about the CEO-employee relationship but only released it upon being approached. By implementing these strategies, it is projected that BestBuy will cement its brand image among customers and investors and also assure future survival as one of the leaders in the retail sector.

References

[1] Aune, S.P. (2012). Best Buy Founder Steps Down in Wake of CEO Scandal. *Technobuffalo*. Retrieved on October 24, 2018 from https://www.technobuffalo.com/2012/05/14/ best-buy-founder-steps-down-in-wake-of-ceo-scandal/

[2] Cox, L. (2012). Best Buy founder forced to quit after failing to tell board about CEO's affair with employee (and the disgraced CEO's walked off with a $6.6m payout). *Mail Online*. Retrieved on October 24, 2018 from https://www.dailymail.co. uk/news/ article-2144268/Former-Best-Buy-CEO-Brian-Dunn-DID-affair-colleague-company-says-scandal-forced-founder-resign-role-Chairman.html

[3] Curtin, S. (2012). Worst CEO of 2012: Best Buy's Brian Dunn. *CNBC*. Retrieved on October 24, 2018 from https://www.cnbc. com/ id/100343655

[4] Pang, A. (2012). Towards a crisis pre-emptive image management model. *Corporate Communications: An International Journal*, 17(3), 358-378.

[5] Sandoval, G. (2012). Why Best Buy CEO's 'expressed affection' for employee was problem. *CNET*. Retrieved on October 24, 2018 from https://www.cnet.com/news/why-best-buy-ceos-expressed-affection-for-employee-was-problem/

[6] Smith, A. (2012). *Best Buy: Ex-CEO had 'relationship' with employee.* [Online]. Retrieved on October 24, 2018 from https://money.cnn.com/2012/05/14/news/ companies/best-buy-ceo/index.htm

[7] Sottek, T.C. (2012). Best Buy CEO Brian Dunn resigns after personal conduct probe. *The Verge*. Retrieved on October 24, 2018 from https://www.theverge.com/2012/4/10/2938311/ best -buy-ceo-brian-dunn-resigns.