WHAT COULD HAVE BEEN DONE? CIRCUIT CITY: A CASE STUDY OF MANAGEMENT AND EMPLOYEE PERFORMANCE FAILURE

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This case study is an employee performance analysis that utilizes Gilbert’s behavior engineering model as a theoretical framework to examine the events that caused Circuit City to fail in 2008. Over the course of 60 years, Circuit City established a highly profitable business model. Ultimately, however, Circuit City became a victim of its own success as long-term thinking began to be replaced with short-term, knee-jerk reactions to a volatile, changing market and fierce competition.

FOR 60 YEARS, Circuit City dominated the big-box electronics retail market. Introducing innovations including a low-price guarantee, 30-day satisfaction, and on-site delivery and repair, Circuit City established a highly profitable business model that, once public, delivered consistently positive returns to its shareholders. Circuit City ultimately became a victim of its own success while long-term thinking began to be replaced with short-term, knee-jerk reactions to a volatile, changing market and fierce competition.

This case study is an employee performance analysis that utilizes Gilbert’s behavior engineering model (Gilbert, 2007) as a theoretical framework to examine the events that caused Circuit City to fail in 2008. Additionally, the case study views the events through a systemic lens. As management implemented changes, employee morale and performance faltered, which in turn affected customer perceptions and attitudes. Taken together, these actions resulted in a negative feedback loop that greatly contributed to the demise of the company.

Using Gilbert’s behavior engineering model, the analysis shows that although the company provided relevant guides and adequate tools to facilitate exemplary performance, adequate financial incentives for performance were not provided. As Ritter and Taylor (1997) observed, “Firms that regularly exploit this opportunity may develop a bad reputation” (p. 21). Additionally, after firing 3,400 of its most knowledgeable retail-side employees, a knowledge gap existed because the replacements did not have the knowledge and skills needed to perform successfully, nor did they have the capacity and internal motivation needed to successfully perform the duties required of the sales position. Consequently, a careful, systemic analysis of Gilbert’s behavior engineering model, as applied to Circuit City, reveals serious problems regarding management’s decision to fire valuable employees and replace them with lower paid, inexperienced workers. It created a ripple effect that reverberated throughout every aspect of the business.

METHOD

In order to analyze the situation and to produce solutions and recommendations, the researcher analyzed the Circuit City business model from a historical perspective in an effort to understand and gain insight into management and employee relations, particularly in aspects that
pertain to Gilbert’s behavior engineering model. After the historical analysis, the behavior engineering model was applied in an effort to reveal management gaffes and miscalculations that resulted in the eventual demise of Circuit City. The behavior engineering model was applied in the specific management and environmental areas of information regarding employee performance expectations, tools provided to the employees for success, and incentives—both financial and nonmonetary—provided to the employees. The behavior engineering model was applied on the employee and individual levels by examining their knowledge to achieve management’s performance expectations, their capacity to perform the work expected of them, and their internal motivations to perform the assigned tasks. Finally, the researcher provides analysis and suggested solutions that may help to avoid the issues encountered by the application of the behavior engineering model.

Circuit City Then and Now: A Brief Perspective

On a whim, Samuel S. Wurtzel opened the first Wards Company in 1949, which would eventually become Wards TV and then Circuit City. Wurtzel’s idea was at once innovative and immediately successful. He foresaw a need for a store that sold television sets; there were numerous local broadcasts but no convenient place to purchase a television. Wards TV quickly became extremely profitable, and several more stores were opened as the company started to branch out. From 1958 to 1968, Wards TV experienced 2,200% growth in net profits while starting to diversify its offerings by selling items including dishwashers, refrigerators, and other large appliances (Hart et al., 2010).

As Carroll (1993) observes, “Firms differ because managers figure out ways to distinguish their firms from others” (p. 239). From the start, Wards TV built a reputation on the backs of knowledgeable employees who, while working on commission, were there to help customers make informed purchases. For decades, this was a powerful and successful strategy because the cocreation of perceived value contributed to the increasingly positive reputation of Wards TV to the customer (Schneider & Bowen, 2010). During this time, Wurtzel and his team implemented innovations including a low-price guarantee, 30-day satisfaction guarantee, and on-site delivery and repair (Wulf, 2011).

By 1984, Wards had been renamed Circuit City. Wurtzel’s son Alan had established himself as a transformative, forward-thinking leader and CEO, and net sales had exceeded $176 million annually (Reference for Business, 2012). By 1991, annual sales exceeded $2.3 billion; and by 2002, annual sales exceeded $9.96 billion (Rykrsmith, 2009). Through fiscal years 2006 and 2007, net sales continued to skyrocket, with fiscal 2007 earnings up 8% over 2006. However, by 2008 net sales had fallen into a tailspin, falling 5.5% (Circuit City, 2006, 2007, 2008) (see Table 1).

At its height, Circuit City operated 655 electronics retail stores in the United States and employed more than 42,000 employees in its retail operations (McIlvaine, 2007). By November 2008, Circuit City had assets of $3.4 billion and a debt of $2.32 billion. Its stock, now virtually worthless, was removed from the New York Stock Exchange (Hamilton, 2008; Reference for Business, 2012).

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mistakes that contributed to Circuit City’s eventual and total failure. From an employee standpoint, when the company eliminated commission payments, reduced or eliminated sales training, and instituted an hourly pay scale, many employees who depended on the commission either found new work or sold less merchandise (Walters, 2009). The decisions to cease selling appliances, to expand stores into new areas too quickly, and to alienate retail employees by creating an impersonal, incentive-free sales environment were all factors that contributed to the destruction of the customer base and the eventual demise of Circuit City (Galuszka, 2008). Furthermore, as Rykrsmith (2009) observed, all efforts and attempts at financial turnaround, including opening smaller stores, changing management, closing unprofitable stores, and firing experienced retail-side employees, failed.

What Went Wrong?
Throughout the mid-1990s and into the new decade, Circuit City faced increasing competition from other large retailers selling electronics, specifically Wal-Mart and Best Buy (Wurtzel, 2012b). These and other concerns were voiced with increasing urgency in successive Circuit City Annual Reports to shareholders. The final Circuit City Annual Report from 2008 was particularly pressing in the language used to frame the competition, stating, “If we cannot respond adequately to these multiple sources and types of competition, it could adversely impact customer traffic, market share and overall financial performance” (Circuit City, 2008, p. 12). Lloyd (2007) observed that in reaction to lower than expected sales, the company was forced to adjust its sales and earnings expectations downward; and as fiscal year 2008 progressed, the financial outlook for Circuit City became even bleaker, forcing the company to consider even more radical cost-saving measures (Circuit City, 2008).

As Circuit City moved into the second quarter of fiscal 2008, its sales and earnings projections did not improve. In order to further cut operating costs, the decision was made to outsource all information technology infrastructure operations to IBM (Mui, 2007). Additionally, upper management made the decision to immediately fire 3,400 in-store retail workers who earned more than the market-based salary range for their positions, to be replaced by workers who were paid less and fell within the designated market range. The fired workers represented 9% of the retail workforce (Lloyd, 2007). All of the efforts made by management to save money did little to postpone the inevitable bankruptcy filing, which took place in November 2008 (Hamilton, 2008). By this time, Circuit City did not have the cash on hand or the creditworthiness to finance the upcoming Black Friday and the holiday season. Moreover, Wall Street analysts had little confidence in the prospect of long-term survival for the company (Hart et al., 2010).

Although the firing of 3,400 of the most knowledgeable retail employees was the move that garnered massive amounts of media coverage, there were other key mistakes that contributed to Circuit City’s eventual and total failure. From an employee standpoint, when the company eliminated commission payments, reduced or eliminated sales training, and instituted an hourly pay scale, many employees who depended on the commission either found new work or sold less merchandise (Walters, 2009). The decisions to cease selling appliances, to expand stores into new areas too quickly, and to alienate retail employees by creating an impersonal, incentive-free sales environment were all factors that contributed to the destruction of the customer base and the eventual demise of Circuit City (Galuszka, 2008). Furthermore, as Rykrsmith (2009) observed, all efforts and attempts at financial turnaround, including opening smaller stores, changing management, closing unprofitable stores, and firing experienced retail-side employees, failed.

Perhaps the failure of Circuit City could have been mitigated or avoided if management reinstated some form of incentive, be it financial or otherwise.
are being misled, they will take their business elsewhere” (para. 4).

The decision to fire 3,400 of the most experienced and knowledgeable retail employees was ill-conceived and shortsighted, but aligned with management’s philosophy of extreme cost cutting (Hamilton, 2008). Circuit City made the decision to fire the 3,400 employees based on a market-by-market review of similar jobs (Lloyd, 2007). In order to complete such a review, management would have had to review all comparable positions in each economic and retail area where a store resided. Then, based on the data, appropriate adjustments would be made to each worker’s pay in order to better align with similar jobs in the area. According to Lee (2007), Circuit City never made its market review data public; and based on interviews of employees who were fired, their salaries were already comparable to similar positions with other retailers. In other words, the currently available data reflect what many analysts were reporting 6 years ago: The employees were fired not as a result of conscientious market-by-market research but as an attempt to save money in the short term (Wurtzel, 2012b).

### Theoretical Approach: Gilbert’s Behavior Engineering Model

Gilbert’s behavior engineering model provides a powerful and appropriate lens with which to view the demise of Circuit City, and it provides insights for how this may have been avoided. The behavior engineering model consists of three “leisurely theorems,” all of which have as a goal improved human performance (Chyung, 2008; Gilbert, 2007). Chyung (2008) observed that Gilbert believed that “human incompetence was management’s fault” (p. 27). The behavior engineering model provides a model so that the actual performance and actions of Circuit City’s management and employees can be viewed in such a way as to enable effective analysis with an eye toward possible solutions that may help other companies avoid a similar fate.

Gilbert’s behavior engineering model (2007) provides a framework that allows us to analyze the distinct environmental and individual elements as applied to Circuit City’s management and employees and to see how management’s decisions negatively affected the performance of the employees. The management elements of data and instruments were provided to the employees, but adequate financial incentives were eliminated. From an employee perspective, the categories of the behavior engineering model related to individuals are knowledge, capacity, and motives. Management failed to enhance performance in all of these areas, causing employee performance and productivity to falter.

According to Gilbert (2007), gaps may exist between an individual’s current performance level and optimum, or exemplary, performance. These discrepancies, known as performance gaps, can be remedied with interventions that can often raise an individual’s performance level to one closer to the exemplary model. From an organizational perspective, the behavior engineering model is relevant to the Circuit City scenario because it can aid in identifying performance gaps at both individual and organizational levels. In addition, it can offer insight into what an organization can provide in order to boost an employee’s performance. An understanding of this model may help management implement solutions and analyze performance from both systematic and systemic perspectives (see Table 2). The implementation of Gilbert’s behavior engineering model may have helped avert conditions that contributed to the bankruptcy and eventual dissolution of Circuit City.

### FINDINGS

Gilbert’s environmental variables in the behavior engineering model are largely under the control of management, and the individual variables are under the largesse of each employee. In either case, gaps that may exist between exemplary and actual performance of each objective, if different, may negatively impact the relationship between management and employee, as well as the overall financial health of the company. Circuit City supervisors, district managers, and regional managers provided training materials to new employees in the form of an orientation program, policies and procedures, and an employee handbook (Circuit City, 2008). Regarding instruments, upper management also provided appropriate resources and materials to store supervisors and floor managers in an effort to facilitate improved employee performance.

When Circuit City moved from an incentive-based compensation plan to an hourly-based compensation plan, the sales associates were no longer provided with a financial stimulus to increase sales. Employees were now being paid hourly wages, and sales volume was no longer of prime importance. The removal of commission-based pay eliminated a key financial incentive for the sales associates. Furthermore, the compensation strategy that replaced it, hourly-based pay, served as a powerful disincentive (Walters, 2009).

A potential solution to the lack of financial incentive would have been to introduce a salesperson-of-the-month program. Because it would be financially reckless to return to a commission-based paradigm, this alternative would serve to motivate salespeople: A significant
but manageable financial bonus would be awarded to the employee with the highest volume of sales per month. The downside to this action is twofold: There would be a continued financial drain on the company; and negative competition could arise among employees as they compete for the most sales per month. This program, although positive, is an example of a solution but not the total solution in itself. According to the behavior engineering model, management still continued to falter in other areas. The financial incentive would only bolster one key area in the model.

After the firing of 3,400 of the best-trained, most experienced salespeople, Circuit City replaced them with minimum wage workers (Wulf, 2011). As a result, the new workers did not have the skills or knowledge they needed to perform the job. This created a significant and insurmountable knowledge gap that management was not equipped to handle. Moreover, the employees who were hired in the wake of the firing of the 3,400 senior sales associates did not necessarily have a sales background. They did not possess the skills or the capacity needed to perform effectively in the sales position (McIlvaine, 2007). They were not hired because they were good salespeople; they were hired because they were willing to work for minimum wage. The knowledge gap in this particular situation is immense. In order to bridge this gap, management could have instituted revamped training designed to bring up employees with limited sales experience to a level of exemplary performance in a short amount of time. Seminars could have been provided by management and top sellers as a solution to help bridge the gap between inexperienced sales employees and high-volume salespeople. The downside to rapid training is often observed in learner retention, that is, employee retention. Material is presented at a rapid pace, possibly causing the effectiveness of the instruction to be diminished (Gilbert, 2007). In order to reduce the rate of employee turnover as a result of intense, rapid training, management could have included an employee self-assessment in the interview process that would provide data regarding each potential employee’s capacity to learn, electronics interest, or preexisting knowledge related to home-entertainment systems.

Employee motivation after the firing of 3,400 salespeople was understandably low; those who were still

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<th>Table 2: Gilbert’s Behavior Engineering Model as Applied to Circuit City Management and Employees</th>
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<td><strong>Environment (Management)</strong></td>
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| Data | 1. Relevant and frequent feedback about adequacy of performance?  
2. Descriptions of what is expected of performance  
3. Clear and relevant guides to adequate performance?  
YES: Management provided guidelines, orientation sessions, and employee handbooks to provide information regarding exemplary performance. | Instruments | 1. Tools and materials of work designed specifically to match human factors?  
YES: Management provided tools to help streamline the sales process. In the early 2000s, sales staffs were equipped with mobile devices to facilitate point-of-sale transactions. | Incentives | 1. Adequate financial incentives made contingent upon performance?  
2. Nonmonetary incentives made available?  
3. Career-development opportunities?  
NO: Management cut salaries, cut workers, and eliminated commission among its sales staff. |
| Individual (Employee) | Knowledge | 1. Scientifically designed training that matches the requirements of exemplary performance?  
2. Placement?  
NO: After 3,400 of the salaried employees were terminated, the replacement employees were not required to have previous sales training or experience. | Capacity | 1. Flexible scheduling of performance to match peak capacity?  
2. Physical shaping?  
3. Adaptation?  
4. Selection?  
NO: Management made no attempt to adapt the skills of the new employees to the expectations of the demands of retail sales. | Motives | 1. Assessment of people’s motives to work?  
2. Recruitment of people to match the realities of the situation?  
NO: With the elimination of financial-based incentives, the new employees lacked motivation to increase company sales. |
employed were left to wonder if they would be fired next. As a result, the internal motivation of each employee to excel and to perform at a high level in the hopes of higher pay or a promotion dissipated. According to Gilbert’s behavior engineering model, the employees simply did not have the internal motivation needed to perform at an exemplary level. Without external incentives and internal motivation, the replacement sales associates were unable to lift the sales of Circuit City high enough to help create a turnaround and avoid bankruptcy. Although Gilbert (2007) considers individual motivation to be a lesser component when analyzing performance, management could have implemented two solutions to help bolster employee motivation, both of which would have been at low to no cost to the company: (1) increased opportunities for overtime; and (2) increased options for work shifts, including flex time and comp time. In both cases, employees may be more motivated to perform on the job because they feel like they are more in control of their schedules. Of course, a downside to these solutions would be regarding in-store scheduling and the logistics involved in calculating, scheduling, and implementing flex time and comp time fairly and equitably for all store employees.

RECOMMENDATIONS

Perhaps the failure of Circuit City could have been mitigated or avoided if management reinstated some form of incentive, be it financial or otherwise. According to Chyung (2008), there are tangible ways that human incompetence can be removed or minimized, resulting in an improvement in the situation. If employees are provided with a financial incentive to produce or come closer to an exemplary performance, they will strive to achieve since it will mean more income; it is a real, tangible, and immediate benefit to their work. According to O’Dell and Mcadams (1987), the use of employee incentives may be successful in reducing employee turnover and maintaining morale because they “not only have the potential to improve productivity, performance, and employee pay, but also offer the possibility of increased employment stability” (p. 73). Gilbert (2007) noted that accomplishment is more important to measure than performance, and in this sense the incentive would be understood to underscore and promote accomplishment in the form of sales. Although the company was in serious financial trouble and withdrew commission-based pay in order to save money, this form of incentive would minimize the expenditures while helping to maximize net profits by providing an external motivator for the employees to achieve higher sales figures. Additionally, if management combined measures intended to increase employee competence through training and selection with performance management initiatives including financial incentives and feedback, the outcome may be more powerful than a solution based on a purely
motivation-based solution. Weldon (2012) concurs with this assertion, observing that management must be willing to "encourage the type of behavior that will lead to high performance" (p. 151).

CONCLUSION

Circuit City was one of the most powerful retailers in the 20th century. From humble beginnings in 1949 to explosive growth through the 1980s and 1990s, Circuit City was considered to be a leader and an extremely bold and innovative retailer. By applying Gilbert's behavioral engineering model to the circumstances that in hindsight can be seen to have pushed the company into bankruptcy, important gaps become apparent, particularly between management initiatives and employee expectations. If these gaps would have been identified at the time, it is a possibility that Circuit City's demise may have been avoided, or at least pushed further into the future.

Readers, current executives, and aspiring managers are encouraged to study the story of Circuit City in order to learn from the mistakes that were made and to form solutions that may be utilized in the future to avert a similar failure.

References


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