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COMMENTARY

By Mark Morrison

## RadioShack's Lesson: Trust, but Verify

On top of plunging earnings, the retailer faces a credibility deficit because of a CEO's bogus credentials. Simple checks could have avoided that

What a ride! Claiming only a bachelor's degree from an unaccredited, and little-known institution -- Pacific Coast Baptist College in San Dimas, Calif. -- David Edmondson launched a dream career, rising to the very top of corporate power and prestige. In a decade, the former Baptist preacher climbed the executive ranks of electronics retailer RadioShack ([RSH](#)) to become president and COO of the retailer. He was even elected to the board of directors at Advanced Micro Devices ([AMD](#)).

The capper came in 2005 when Edmondson, 46, was named CEO of RadioShack. Outgoing CEO Leonard Roberts boasted, "The board and I have made succession planning a priority. Well, it paid off."

**PRECIPITOUS DROP.** But Dave Edmondson's fabulous ride has jolted RadioShack and its shareholders. Just nine months after becoming CEO, Edmondson resigned in disgrace Feb. 20, after the *Fort Worth Star-Telegram* disclosed that he had falsified his resume and biography.

It turns out that Edmondson's claims of even modest educational credentials were untrue. He did not have the bachelor's degree in psychology listed on his resume -- and he can't produce the lesser ThG (theology) diploma that he still professes to have earned.

Edmondson leaves behind an embarrassed board and a troubled company whose stock has dived more than 35% since last spring. Since last week, the company's future leadership and direction are uncertain. The week before last, Edmondson announced a stinker of a fourth quarter, in which earnings plunged 62%. He also announced a "turnaround plan" that would close about 10% of RadioShack's 7,000 stores and attempt to improve its out-of-date, low-margin product mix.

**GROOMED AND MENTORED.** How did a transition that former CEO Roberts predicted would be "seamless" turn so ugly so fast? The lesson for corporate directors: Even the most thorough and orderly transition plan can go awry. They should also note that it's a good idea never to take any candidate's representations for granted without completely checking out the purported record.

Roberts and his board took too much for granted. To them, Edmondson was a known quantity -- someone who had proven his executive skills working side-by-side with Roberts, making operations more efficient and marketing more effective. RadioShack declined to make Roberts available for comment.

When Roberts announced early last year that he would be stepping aside to serve as executive chairman, and that Edmondson was replacing him, Roberts heaped praise on his hand-picked successor. "I knew almost from the moment I met him in 1994 that he could become CEO of RadioShack," Roberts said. "I've been grooming and mentoring Dave in anticipation that he would someday be in line to succeed me."

**PULL OVER, DRIVER.** Also in Edmondson's favor: Robert J. Kamerschen, an influential outside director who chairs RadioShack's management-development and compensation committee, is the retired CEO of direct marketer ADVO. Edmondson started his business career at ADVO, where he worked for 11 years before joining RadioShack.

While the board had reasons to believe Edmondson was qualified to be CEO, there were obvious warning bells. Looking back, it is easy to see that Edmondson's educational credentials were unconventional, if not downright flimsy. The college he attended was no longer operating under the same name or in the same location, making it doubly important to find out just what level of college work Edmondson had completed.

And on two occasions, Edmondson had been charged with (but not convicted of) driving while intoxicated, according to the *Fort Worth Star-Telegram* investigation. Then, shortly after RadioShack announced that Edmondson would be taking over as CEO, he was arrested on a third DWI charge on Jan. 25, 2005, in Southlake, Tex. It was this last incident, scheduled to go to trial in April, that made the *Star-Telegram* sufficiently skeptical to begin checking out the local CEO.

**TURNAROUND PLAN.** In retrospect, the board could have taken this same cue to review its decision, examine Edmondson's character and judgment in light of the driving incident, and perhaps dig further into his overall qualifications for CEO. On the day he had to tell the board about his arrest, Edmondson said to the *Star-Telegram*, "I was embarrassed to have to go to the board and say 'Hey, look, you know, I'm, you know, CEO-elect. It's been two weeks since I've been CEO-elect. Guess what? I've got some great news for you.' I'm not proud of it, okay?"

Even when the *Star-Telegram* first reported discrepancies in Edmondson's resume in mid-February, the board stuck by its man, issuing a statement that it had already looked into questions raised by the newspaper. After Edmondson admitted to misstatements and failed to produce a diploma, the board announced it would hire an independent law firm to investigate Radio Shack's employment

practices. Edmondson resigned just a few days later, on Feb. 20.

By then, it was way too late to save RadioShack from a devastating loss of credibility that will likely take years to rebuild, not to mention the serious business problems that developed during Edmondson's short tenure as CEO. Investors may also have doubts about the turnaround plan devised by the discredited Edmondson, which the company vows to execute.

**EAGER TO BELIEVE.** For now, the company will be led by acting CEO Claire Babrowski, a former McDonald's (**MCD**) executive who recently joined RadioShack as executive vice-president. Search firm Spencer Stuart has been hired to find a permanent boss.

With its lack of skepticism, RadioShack's board has made itself a case study for corporate boards everywhere as they work on succession issues.

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