For the "Realigning HR Practices at Egan's Clothiers", evaluate in depth the effectiveness of the company's current HR systems and explain how the Equity and Expectancy Theories can be be used to analyze what is happening in the company (30 points - 3 pages double spaced)

**Realigning HR Practices at Egan’s Clothiers**

At the end of fiscal year 2014, revenues at Egan’s Clothiers, Inc., had increased 12 percent over 2013 and had increased at a compounded rate of 14 percent over the past five years. That is the good news. The bad news is that costs have risen at an even more rapid rate, thereby shrinking the company’s gross margins. As a consequence, Egan’s profitability (measured as return on sales and return on net assets) has actually fallen by 6 percent over the past three years.

The drop in profitability at Egan’s is particularly worrisome. In fact, according to Egan’s chief financial officer, Richard Coyle, if something is not done immediately to control material and labor costs, as well as administrative expenses, the company may need to restructure its operations. In the short run, Coyle, company president Karen Egan, and vice president of HR Pam McCaskey have put an indefinite freeze on all hiring. Further, they are contemplating laying off nearly one-quarter of Egan’s sales staff and are weighing the benefits of cutting back on HR-related expenses such as training. Compared to others in the industry, the firm’s labor costs are very high.

**Company Background**

Gene Egan and Pat Pollock opened their first store in Baldwin, New York, in 1958. The company grew rapidly during the 1980s and now operates a chain of 34 medium-sized stores located throughout Connecticut, New York, Pennsylvania, and New Jersey. Since the beginning, Egan’s customers have been primarily middle-class and upper middle-class families purchasing sportswear, dresswear, and fashion accessories. The company has established a longstanding tradition of quality and customer service. In addition to its 34 stores, the company also maintains two distribution centers and its administrative offices in Stamford, Connecticut. The total employment currently stands at approximately 2,400 people: 15 executives, 40 staff specialists, 40 store managers, 215 sales managers, 250 administrative personnel, 1,600 salespeople, and 240 distribution workers. Except for the employees at the distribution centers, the company is not presently unionized. However, it is no secret that Egan’s management has been trying very hard recently to keep current labor organizing activities to a minimum, viewing it as a threat to the company’s success.

Egan’s HR department has been called upon to conduct a program audit of various personnel practices utilized at Egan’s. The purpose of this audit is to assess the impact of Egan’s HR policies and practices on employee outcomes (e.g., performance, employee satisfaction, absenteeism, and turnover). The objective of the audit is to identify specific problem areas where policy adjustments may be necessary. The final report to the executive staff will include the HR department’s evaluation of current problems and the changes it recommends.

**Human Resources Management History**

Over the past five years, Egan’s has made several changes in order to implement the best HR practices possible. Partially, this has been to circumvent unionization efforts, but primarily it is indicative of Egan’s longstanding belief that success in retailing depends on the competencies and efforts of its employees.

The commitment to HR is demonstrated by the fact that in 2014 the company spent $1.3 million on a human resources information system (HRIS). The HRIS has successfully automated the company’s employment records and connects each of the retail stores, distribution centers, and executive offices. Also, Egan’s has maintained an ongoing training program for the past five years to help salespeople improve their retail selling skills (RSS) and customer service. The annual cost of this program has been roughly $750,000.

To further ensure high ability levels in its workforce, the company sets selection standards substantially higher than its competitors. Whereas other retail companies typically hire inexperienced high school students, Egan’s generally requires some retailing or sales experience before considering an applicant for employment. Although this policy increases Egan’s overall labor costs, management has been confident that the added expense is well justified over the long run. However, recently even the strongest proponents of HR have been wondering if it might be a good idea to cut back on training, given the company’s current financial picture.

By far the most problematic and volatile HR issues at Egan’s have revolved around promotions and salary increases. Because the company promotes from within and distributes raises on a companywide basis, comparisons generally have to be made across employees in different jobs and departments. To combat arguments of subjectivity and bias pertaining to these decisions, Egan’s links these rewards to objective measures of performance. Specifically, rather than utilizing subjective managerial evaluations of employee performance, ongoing accounts of sales results are maintained for each employee through the HRIS. On the basis of this information, each department manager assigns each employee one of five categories:

* Superior—top 10 percent
* Very good—next 20 percent
* Good—middle 40 percent
* Fair—lower 20 percent
* Poor—lowest 10 percent

Administrative decisions are then made across departments utilizing these standardized distributions. Additionally, to provide constant feedback to each employee about his or her relative performance, data are updated and posted daily. It is hoped that this feedback is motivating to employees. In this way, there are no surprises when the time comes for semiannual performance appraisal interviews. It is interesting to note that since these changes have been made in the performance appraisal system, there has not been one formal complaint registered regarding salary or promotion decisions. However, sales managers themselves have mentioned occasionally that they do not feel as comfortable now that they are required to assign employees to the “fair” and “poor” categories.

**HR Outcomes**

Despite the concerted efforts of Egan’s management to create a first-rate system of human resources management, there are several troubling issues facing the company. The HR practices are not having their desired effects. For example, there have been recent complaints that employees have not been as patient or courteous with customers as they should be. This was best summarized by Paul Kelly, a store manager in White Plains, New York, who noted, “My people are beating up the clientele in order to make a sale—the very opposite of what the RSS program trains them to do.” This lapse in customer service is frustrating to management since the RSS training has proven effective in the past. Additionally, there seems to be a great deal of competition *within* departments that is hurting a team effort. Although intergroup rivalries *between* departments have always been viewed as normal and healthy, the lack of intragroup cohesiveness is seen as a problem.

Additionally, Egan’s has been plagued with increases in lost and damaged merchandise. Management attributes this to the fact that storage rooms are disorganized and unkempt. This is in sharp contrast to the selling floors, which have remained fairly well ordered and uncluttered. Nevertheless, inventory costs have been increasing at an alarming rate.

Everyone notices that something is wrong. But the behavior patterns are perplexing. Absenteeism has decreased by 23 percent, but employee turnover has actually increased from 13 percent to over 29 percent, thereby increasing labor costs overall. Unfortunately, many of those who left the company (43 percent) were rated as very good to superior employees.

As executives in the company look at these trends, they are understandably concerned. The success of the company and its reputation for quality and service depend on solid investments in HR to ensure the best possible workforce. However, the expenses are eroding the company’s profits, and worse, it now looks like these investments are not paying off.