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The Republican Pacific Company

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The Republican Pacific Company (RPC) was founded in California in 1995 to produce building materials for houses. The company grew steadily, expanding into selling virtually every kind of home improvement product and by producing some of the products it sold. Its divisions included cabinet manufacturing facilities, window and door manufacturing, and hardware and appliance purchasing and reselling. RPC had four production facilities and more than a dozen retail facilities in California, Idaho, Nevada, Oregon and Washington. It remained a family business with a strong and paternalistic management style.

In September 2007, the subprime bubble exploded and the biggest imaginable mortgage default threatened the survival of the United States' financial sector. The building industry crashed and RPC's sales collapsed. The company went bankrupt. All its facilities shut down with the exception of a door manufacturing plant in Harrisburg, Oregon.

Out of Bankruptcy

In 2008, Buddy Kaplan bought the door manufacturing plant in Harrisburg. Each of the remaining 11 RPC employees in the plant took on a variety of tasks, rather than different people specializing. Kaplan drove a truck to do early-morning deliveries, then spent the rest of the day selling and taking orders. The person who answered the phone set up employee files, did financial reports, and handled walk-in customers. The few workers on the shop floor all pitched in to get the doors built.

Kaplan took a conservative approach to the rebuilding process. He kept wages low, worked long hours, and watched the debt burden very carefully.

As the Pacific Northwest began to climb out of the recession, sales took off, production increased and growth was in full swing. In 2010, a distribution center was created in Portland, Oregon. Demand continued to grow and soon the distribution center was turned into a production

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facility. In 2013, a distribution center was established in Sacramento to serve the California market. By the end of 2018, RPC had gone from 11 employees in one location to 220 employees in three (100 in the Harrisburg plant, 100 in Portland, and 20 in Sacramento). RPC's financial situation was extremely satisfactory, with higher profits than those of its competitors relative to the company size. Basic figures about the firm can be found in Exhibit 1.

RPC is a low-cost producer with a very short-term profit orientation.

Even though some managers try to instill in the employees a sense of pride in building the best doors on the market, the fact is that RPC doors are very generic commodities that incorporate relatively unsophisticated technologies.

Moreover, given the cyclical nature of the building trade, the top managers at RPC believe that the low-cost and short-term orientations naturally reinforce each other: companies in the industry need to exploit short-term profit opportunities during upswings to have a chance of surviving the downswing when the next recession hits. Of course, the chances of surviving cyclical recessions improve in direct relation to low levels of debt, wages and overheads.

Kaplan, RPC's owner and CEO, is thinking about further expansion. Demand for his company's doors has increased to the point where he has to refuse orders because of a lack of production capacity. He is pondering two courses of action. One alternative is to build a new production plant in Sacramento, California, and a distribution center—or another manufacturing plant—in Seattle, Washington. The other alternative is to expand the company's existing plants in Portland and Harrisburg: the Portland plant would serve both Portland and Seattle, while the Harrisburg plant would also serve California. Four smaller plants—two in Oregon, one in Washington, and another in California—instead of two bigger ones in Oregon would increase costs due to duplication in machinery, stock, and administrative staff but would save on transportation. Smaller plants could also benefit from a simpler organizational structure. However, wages in Washington and California are higher than in Oregon.

Growth Years

Rapid growth can take its toll. Employee turnover at RPC before 2008 was virtually zero. By January 2017, turnover was close to 15% per month. Morale was at an all-time low. People complained about wages. Training was basically nonexistent. Absenteeism was very high. Depending on the supervisor's evaluation of each employee, some workers were disciplined for excessive absenteeism while others were not. Workers' compensation injury claims and costs were out of control. Between October 2017 and September 2018, 117 injuries in the Harrisburg and Portland plants cost RPC more than $250,000. Some employees also complained about the use of drugs in the workplace.

In 2017, entry-level employees were being paid a wage of $12 per hour, slightly above the Oregon minimum wage. After a 90-day probation period, employees were given increases ranging from $0.25 to $0.75, depending on the judgment of the supervisor. Subsequent raises were supposed to be given four months after the probation period ended, then annually thereafter. However, employees were lucky if performance appraisals and wage increases were given within three months of the due date. Wage increases took effect on the day of the actual review, not the day the review was due. In some units, the employees have never been evaluated.

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Unemployment in Oregon is slightly below 5%. Only two or three out of every 10 applicants for production vacancies are suitable for the entry-level positions that frequently become available. On average, out of every 10 applicants, two wear a jacket and tie to the interview and are considered overqualified, two have a T-shirt with a slogan such as "Sex is all I want," and three or four can hardly read or write. The remaining two or three applicants are hired. Most of the newly selected employees have no high school diploma and very few have manufacturing experience. Twice in the past four years, RPC has had to recruit new employees from among homeless people from the Harrisburg Mission and county jail inmates on work release. However, getting applicants to fill newly created vacancies is not usually a serious problem. One of the plant managers thinks that the high turnover means there is no need to lay off employees whenever the demand for doors slackens temporarily.

On average, the line supervisors do not have strong educational backgrounds. They are hard workers and have risen through the ranks by performing outstandingly in their jobs. Most of these supervisors have been at RPC for years. They believe in old-school, authoritarian, top-down management, whereby the owner makes any major decisions and these are passed down to the plant manager and the supervisors. The Harrisburg and Portland plants both have the same, quite simple organizational structure, with only two levels of management between the owner and production workers.

The legal environment is increasingly complex. Some companies have had to pay very heavy fines for violating employment regulations, mostly for illegal discrimination, unsafe practices and accidents.

Creating a Human Resources Department: Ralph Smith's Arrival

In October 2016, a human resources manager was hired. He had previously taught management at a community college. He had no practical experience of human resource (HR) management but understood that his position included caring for people and helping them solve their problems. For the most part, he took a highly technical approach to his job but had difficulty communicating with the employees. Three months later, he was fired.

Ralph Smith was hired in January 2017. Kaplan gave him a brief overview of the company. The chief executive's main comment to Smith was: "I can't tell you how to do your job because I don't know what it is. I just know we need one."

Smith came to RPC with a varied background in psychology, sales, computer consulting, entertainment and, most recently, HR management. He had a bachelor of science degree in psychology. As he often describes it, it took him two wives, three universities, and 11 years to get his degree. After three years working in social services with children with special needs, he had a seven-year stint as a salesman for a big international electronics firm, and then a 15-year career in entertainment working as a clown and magician. At the age of 43, he went back to college and graduated with a master's degree in human resource management. After that, he practiced as an independent HR consultant for a year, doing small projects for several firms. These HR projects included writing job descriptions and organizing seminars on employee performance evaluation, sexual harassment, and diversity training.

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