CASE STUDY

A mission-based for-profit

The Redwoods Group

The Story | Founder, President and CEO Kevin Trapani of The Redwoods Group, a specialty insurance provider, was told when he started his business that it would never work. Especially his dream to create a social business model, inspired in part by Soul of a Business by Tom Chappell. But Trapani, who as a young person often heard his parents say that "to whom much is given, much is expected," persisted in his vision. Today the company earns a sustainable profit and fulfills its social mission by donating a minimum of 10% of pretax profits each year to charity.

According to the company's website, a key component to The Redwoods Group's business model is to choose markets that are underserved and whose decision makers both resonate with the firm's social mission and will adopt recommended risk reducing practices. For this reason the firm only works with YMCAs, Jewish Community Centers, and nonprofit resident camps, and actively trains these customers to develop a "culture of safety."

In 2007, the firm sold a division and used most of the proceeds to help fund The Redwoods Group Foundation, a separate entity, which gives out about $700,000 in grants to nonprofits each year. Equally unusual, the company is comfortable reporting a loss (its first was in 2008) and will not pursue short term gains to avoid it. Facing a $66,000 shortfall one year, the firm dipped into reserves rather than lay off a single employee, and there were no layoffs or benefit reductions during the recent recession.

Engagement Strategies | The privately-owned company's motto, Serve Others®, is reflected in its relationships to its employees, its clients, and the larger community. Redwoods' 85 employees are required to spend 40 paid hours a year performing community service with an organization of their choice. If they spend more time, the company donates ten dollars per hour spent to the charity.

The company is firmly committed to parity in salaries and benefits. The CEO's salary is no more than 10 times as much as the lowest paid employee. Employees' 401(k)s are matched dollar for dollar up to 6% and employees making $35,000 or less have 100% of their health care insurance premiums paid. Those making between $36,000 and $40,000 have 90% of their premiums paid. One entry level employee told Trapani that having the company pay a larger share of the premiums (so that she didn't have to rely on Medicaid) "saved her dignity." Redwoods also subsidizes the cost of college education for employees' children up to $5,500 a year.

In addition to generous benefits, the company shares profits – and turns the usual corporate bonus structure entirely upside down. The first employees to be awarded bonuses are lower level employees, then management, then executives. Bonuses are two-part: first, almost all employees in good standing receive them on an annual basis, depending on that year's profitability. The second part is a company-wide, performance-based merit pool where all employees benefit when the firm meets certain goals. Broad based equity sharing is part of a longer term plan, but will not be put in place until, Trapani says, they can find the right way to do it.

The Human Resources director is part of the executive management team. Trainings, mostly led internally, are a constant. Trapani sees the company's HR staff as coaches: employees that need to address a problem are encouraged to go to their supervisors. To make communication more effective,

AT A GLANCE THE REDWOODS GROUP

Business:
Specialty insurance
Locations:
Morrisville, NC
Employees:
85
Revenues:
$11.6 million in 2009
Ownership:
- extensive training
- clear communication of core values
- strong benefits
- HR Director part of executive management team
- paid time off for community service
- profit sharing
- performance-based bonuses

Business result:
- low employee turnover
- superior customer retention

supervisors and employees each participate in an annual self-assessment of strengths and weaknesses, which is followed by a gap analysis, then targeted problem solving. According to Trapani, the gap is smaller each year.

In addition, The Redwoods Group, a certified B-Corp, has conducted a social audit every year since 2004 as part of its annual report to report on the company's mission-related performance, including successes and progress as well as areas for future improvement. The firm was named a 2009 Best Place to Work in Insurance.

Business Results | Turnover at the firm is also very low at about 5% annually. Many employees have been with the thirteen-year-old company 10 years or more. Most promotions are internal and Trapani says employees are "happy to move into more demanding jobs."

Customer retention is also consistently high from year to year. In 2009, at the heart of the recession, the company had budgeted for 85% customer retention but achieved 91%. In a non-recession year, customer retention has been as high as 97%.

Other metrics have been strong for the company as well. The insurance market has been soft for a number of years and industry-wide loss ratios reached 80% last year. However, Redwoods' rate was 50% (meaning that only 50 cents of every dollar is spent on losses rather than 80 cents). Uncharacteristically for an insurance company, Redwoods actively works with and offers trainings to customers to change operating behavior to reduce risk.

The Redwoods Group's employee and community engagement clearly differentiate it from industry peers. Trapani says the firm is more influenced by the writings of Dr. Martin Luther King Jr., the civil rights leader, than Tom Peters, the famed business management coach. The lesson in Dr. King's teaching, Trapani says, is "how to subordinate yourself to others to demonstrate caring."

LESSONS LEARNED:

- Choosing the right markets to serve and screening customers who will adopt risk reducing practices is good business in the insurance industry.
- Serving employees, customers, and the community well can lead to excellent employee and customer retention and better than industry average performance even in an economic downturn.