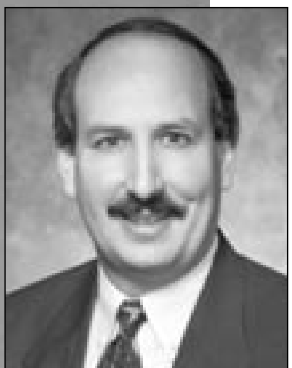
THE DEMILITARIZED ZONE



PROFILE: ROY SOARDS

Roy Soards has spent his entire career creating job opportunities for people in Oregon. After attending the University of Oregon in the mid-1970s, he began as a VISTA volunteer finding jobs for disadvantaged high school youth, then spent six years in Clackamas County working with low-income, long-term unemployed adults and youth. That led to three years with the Portland Private Industry Council, where, as marketing director, he created unsubsidized work opportunities for welfare recipients, ex-felons, older workers and dislocated workers. He became Chief Operations Officer for St. Vincent in 1989 and Chief Executive Officer in 1995. Soards is one of 41 CEOs featured in *The CEO Chronicles – Lessons from the Top about Inspiration and Leadership*, is an adjunct professor at Portland State University School of Business, and has been a keynote speaker at numerous national and regional gatherings. He and his wife Laurel have two children.

The culture wars began when Charley Graham arrived in 1985 and were still underway when Roy Soards joined him four years later.

"By the time I got here," remembers Soards, "there was a demilitarized zone between the production people who ran the factory and the rehab people who provided social services. We had two very strong-willed managers and each of them had their own lieutenants and armies." The opposing forces fought over resources and, more fundamentally, they fought for the soul of the organization.

It took another three or four years for the wars to subside, and "it was pretty ugly at times," says Soards. "The rehab people would sabotage the production people, who often had to rely on the rehab folks for employees. If the production people had a job that had to get done, they were under a lot of pressure, because the rehab people were more concerned about, 'Well, is this the proper training for this individual, they're not ready for work that's too demanding, and why don't you guys find the types of jobs that fit their needs, and no, they can't work after three o'clock because they have to go see their case workers.' We finally had to part ways with the head of the rehab division . . . "

What could stir such passions?

ORIGINS

The story begins in 1971 when the state of Oregon approached The Society of St. Vincent de Paul, an international Catholic organization of lay men and women who become personally involved in helping people who are disadvantaged. The Society is best known for its shelters and thrift stores.

The state asked if St. Vincent would be interested in starting a vocational training and employment program for people with developmental disabilities. The Society ultimately decided it was in the business of rehabbing clothing, not people – but it set aside $100,000 in seed money and lent its name to the creation of a new and entirely separate nonprofit.

St. Vincent de Paul Rehabilitation Service began life as a traditional sheltered workshop and stayed that way until Graham arrived. "We were heavily into wood products," says Soards, who became CEO after Graham departed in 1994. "This being Oregon, we had some Board members who had expertise in that area, and we began making everything from the ubiquitous birdhouse to at one point a full line of cabinets. We did pallets and boxes and furniture parts," and branched out into other types of manufacturing. By the mid-1980s the annual operating budget reached $1.5 million, with about a third of the revenue coming from the manufacturing business and the rest in grants from the government to pay for social service programs.

THREE KEY EVENTS

Then, during the 1980s, three events occurred that changed everything.

The first was the election of Ronald Reagan as President. Suddenly, says Soards, "the government turned off the spigot and our social service fees began to dry up."

At about the same time, the initial executive director left and St. Vincent's went through three directors in three years. By the mid-1980s it was constantly in the red.

"All the directors we'd hired and in some cases fired were from a social work background," says Soards, "and somebody on the Board was finally smart enough to stop doing that and hire a person with a business background."

That person was Charley Graham, who began to promote the idea of a double bottom line. "He told the Board we were never going to be able to employ more people with disabilities if we continued on the same track," says Soards. That track was operating a sheltered workshop "and depending primarily on social service fees and charitable giving." According to Soards, "he convinced the Board that if we provided quality goods and services, people would buy them and we'd therefore be able to employ even more people with disabilities and help them become self-sufficient."

Doing so, however, meant converting the organization from a sheltered workshop into an affirmative business, and Soards refers to Graham as "one of the pioneers in the field." An "affirmative" business is created specifically to do things a sheltered workshop cannot: Provide real jobs, competitive wages and career tracks for people who are physically, mentally, economically or educationally disadvantaged.

And the most important precept of an affirmative business is that the viability of the business comes first, not the number of people employed. Implicit in that argument is the belief that if the business isn't viable, it won't survive – and the whole question of social impact becomes irrelevant.

The Board agreed . . . but some members of the staff dug in their heels . . . and the culture wars began.

THE TEMPORARY STAFFING BUSINESS

The third key event took place in 1989, four years after Graham began operating the organization as a business. "We'd been doing very well in the manufacturing, assembly and packaging areas," says Soards, "but it was a seasonal business. It was up and down, up and down."

Roy Soards talks about . . .

- The battle between the production peopl the rehab people
- The impact of Ronald Reagan
- How an affirmative business differs from sheltered workshop
- Accusations of "unfair competition" fron for-profit sector
- How growth in the stock market severely damaged his business
- The "holier than thou" attitude of some rehab providers
- The importance of doing something — a not paying much attention to what others say is possible

So Graham and Soards looked around and decided to explore the temporary staffing business. "It looked like an easy business to enter," says Soards, and "we did it for a couple of reasons. First, we thought it was a good opportunity. But the more important reason had to do with modern medicine." People with heart disease, kidney problems, head injuries and organ transplants were living longer than they had in the past, "but their quality of life wasn't very good. They weren't working, even though they were able to work at least part of the time. So we thought, 'Hmmmm, this temp biz might be a good model for those folks, who could work for us whenever they were able . . .'"

The problem, of course, is that employers don't want full-time employees who need significant time off. "If your receptionist tells you, 'I'm really good at this, but I've got a chronic back problem so I can't lift more than ten pounds,' you know what most employers will do," says Soards, "and if it's somebody who's chronically mentally ill and says, 'Yeah, I look fine, and I'm doing okay, but sometimes I have trouble adjusting to my medication and need to take some time off,' most employers will say, 'yeah, right' . . . "

Even though it was easy to enter the business, however, Graham and Soards soon discovered it was anything but easy to run the business. "It barely breathed for a long time," admits Soards, and it ran into three major problems: The internal culture wars, accusations of unfair competition and lack of expertise.

"We took some real heat from our big, for-profit competitors," says Soards, "especially after we got involved big time in government contracts. They thought we had an unfair advantage because we were a nonprofit. But I simply told those folks, 'All you have to do if you want us to go away is do what we do. You can have this business — just make sure that 75 per cent of your employees are disabled, that you train them and that you do all the paperwork required by the government."

But one of the biggest reasons the company struggled, says Soards, is "because we didn't know what we were doing. One of our biggest surprises was finding out this type of business was a lot harder to run that we thought it was. We should have gone out and hired somebody who knew the business and could teach us how to run it. Instead, we spent two or three years stumbling around."

THE TURNAROUND

The turnaround happened in 1991. "We were in the right place at the right time," admits Soards. Until that time, the company had operated only in Portland, but that was about to change.

A buyer for the state of Oregon happened to run into Graham at a conference and suggested St. Vincent open an office in the state capital to take advantage of the set-aside laws that require the state to purchase products or services from qualified rehab facilities.

Boom! "The next thing we knew," says Soards, "we had a contract with the state to provide temporary employees for several large departments in the state capital. It was a big step for our Board. Salem is only 60 miles away, but it was still a big step.

"We opened the new office in December of 1991 and the contract started in January of 1992. By mid-summer we were grossing $50,000 a month and in July we got another big contract with the state department of transportation." The business took off. "I remember thinking then that if our Salem office ever got to $150,000 month in billings, man, that would just be astronomical," says Soards. "Now that office does $350,000 a month."

Today the company has offices in six cities, five in Oregon (Portland, Salem, Corvallis, Eugene and Hillsboro) and one in Bremerton, Washington. Annual sales of temporary services in the most recent fiscal year were $9.8 million (with a marginal loss of $38,000) and the company employs more than 2,500 different people a year, with an average of 450 people per day, 400 of them disabled or disadvantaged.

About 40 per cent of the company's employees have a physical disability. Twenty-five per cent are chronically mentally ill and another 15 per cent have chronic medical conditions that keep them out of the workforce periodically. Ten to 15 per cent are recovering from drug and alcohol addiction and there's a small contingent who are deaf and hearing-impaired.

CRITICAL SUCCESS FACTORS

In addition to **surviving the culture wars** and **being in the right place at the right time**, Soards believes there are at least six other factors that have been critical to the company's success.

Expertise: "It's relatively easy to enter the temp business," says Soards. "There aren't many obstacles. But our biggest mistake was not bringing in an expert from the start. We thought this would be a really easy business, and we simply didn't get the expertise we needed. We don't do this anymore. Any time we start a new business these days we hire expertise first."

The set-aside laws: There are 170 temporary staffing companies in the Portland area, one for about every 20,000 residents. Competition is fierce, but St. Vincent has a huge advantage. "Seventy-five to eighty percent of our business comes from the government under the set-aside laws," says Soards. Any federal or state agency that purchases products or services is required to buy them from qualified rehab facilities so long as the facilities charge a fair market price and are able to deliver. In order to qualify, says Soards, "Seventy-five per cent of our direct labor has to be provided by people who have disabilities," and that's something most of St. Vincent's competitors are loath to do.

On the other hand, many of the companies in the for-profit field have an equally big advantage over St. Vincent when it comes to attracting customers in the commercial sector. "The margins in this industry are skinny," says Soards, "and we have too much overhead related to getting and finding and training people. We simply can't compete on the basis of price, and when it comes to hiring temporary employees with minimal skills, everything is price-oriented."

Speed: "You never never never take a message and say you'll call somebody back," emphasizes Soards. "This is a 'real time' business. If somebody calls you, a red light goes off, you take the job order and you fill it now." He says installing that mentality "has been one of the most interesting shifts from the rehab culture to the business culture."

Quality: "You don't get too many second chances in this type of business," says Soards. "You've got to make a good job match. You've got to get the right person there the first time. You're dealing with expectations that are very high. People will call you up and want somebody there right now – and keeping the pipeline full of people who are trained and ready to go is a constant chore. If it was easy, everybody'd be doing it . . . "

Recruitment: "We have to be very creative and aggressive to find employees," says Soards, " and we find them all over the place. A lot of people come to us through our newspaper and web site advertising, and our recruiters beat the streets. They go to nonprofit organizations such as Easter Seals and the Epilepsy Association, to physical rehab centers and drug and rehab centers, to welfare offices . . . and hundreds of other places."

Training: "We're dealing with a population that's been unemployed, has disabilities and needs upgraded skills," says Soards, "and that means we have to invest a lot in training." St. Vincent has training centers attached to each of its five staffing offices.

ENVIRONMENTAL DANGERS

According to Soards, there are three potentially dangerous forces impinging on the company today.

The stock market: The business grew rapidly for nine years . . . but it suddenly hit a bump in January of 2000. Revenue at the Salem office plunged by 30 per cent in less than two months because of what Soards calls "a very odd quirk in the government system. The state of Oregon had an incredibly lucrative public employee retirement system and the booming stock market meant there were thousands of state employees who were able to do a whole lot better financially by being retired. So thousands of them retired early and the state started using them as an in-house temp pool. There was nothing we could do about it. I mean, if you could hire somebody who already knows the job and is totally skilled — and you don't have to pay benefits to that person or an override to a temporary help agency . . . well . . ." It took St. Vincent nearly a year to recover the lost income, and the threat of in-house temp pools still hovers.

Changes in the labor laws: "There's been a huge backlash from the Microsoft situation," says Soards. For years, Microsoft and many other companies have been using thousands of people classified as "perma-temps." Soards explains: "You hire somebody as a temp and the person remains there as a temp forever." Corporations choose this route in order to limit their liabilities – and to avoid having to pay benefits. But the lawsuit against Microsoft, according to Soards, raises a fundamental question: "Whose employee are you? The company's or the staffing agency's?" The answer could have profound implications for St. Vincent and other staffing companies.

A "holier than thou" attitude: "A really strange barrier we run into politically," says Soards, "is what I call the 'holier than thou' attitude we get from other people in the rehab community. They say 'you're not working with people who are really disabled.' And at the legislature people say to me, 'If they're able to go out and do this, how in the world can you call them disabled? How is a recovering drug addict disabled?'" A small but vocal group of for-profit competitors has been lobbying the legislature for three years to change the set-aside rules. "And the one that really drives me nuts," says Soards, "is, 'Well, they don't *look* disabled!' Just because they're not in wheelchairs, they're not drooling, they don't have seizures on the work site . . . "

FINAL WORDS OF ADVICE

"Start small," cautions Soards. "Use the garage model. Every time we've dumped a big bunch of infrastructure into the game up front it hasn't worked. And start with something in hand. Go out and sell something, create the demand first, then prepare to deliver. Don't go out and set up a staffing business or a call center or whatever and then say, okay, let's go sell something . . . you've got to be nimble enough to create the demand first and then produce the supply."

He also suggests that entrepreneurs "don't think too much. If I had to look back on some of the stuff we've done, if we'd sat back and analyzed it and spent a lot of time thinking, we might have gotten scared off. At some point you've got to take action. Stop analyzing and move ahead."

St. Vincent dePaul Staffing Services

TYPE OF BUSINESS:
Staffing services (temporary employment)

Short- and long-term assignments,
with an emphasis on the clerical,
light industrial, banking and call center industries

Mission: To create work opportunities
for people who have disabilities

Year founded: 1989

Structure: A program operated internally by a nonprofit

Headquarters city: Portland, Oregon

Four branch offices in Oregon (Hillsboro, Salem, Corvallis and Eugene) and one in Washington (Bremerton)

Geographic market: Oregon and Washington

CURRENT FINANCIAL PERFORMANCE
(fiscal year ending September 30, 2000)

Annual sales:	$9.8 million
Net profit:	-$38,000 *(negative .4 per cent)*

SOCIAL RETURN ON INVESTMENT

Number of employees (average day):	450
Number who are disabled:	400
Number of different employees (per year):	2,500
Number graduating to full-time work:	120 *(4.8 per cent)*
Average wage (per hour):	$9.20 - $9.50
Annual payroll:	$7 million

INITIAL INVESTMENT

Planning time required before operations began:
Six months

Dollars required before operations began: $35,000

Source of planning dollars: Cash flow
from manufacturing operations

Time until the business generated positive cash flow:
Three years

*Additional working capital required
before generating positive cash flow:* $900,000

Source of working capital:
Gift of cash from the organization's founder

*Time required to recover planning dollars
and working capital:* Six years

PARENT ORGANIZATION:
St. Vincent de Paul Rehabilitation Service, Inc.
(founded 1971)

Mission: To provide employment opportunities for people with disabilities who are capable of making a contribution to the community but who might otherwise be excluded from the labor market

Programs: Provides vocational training, education and employment for more than 900 adults with disabilities each day in Oregon and Washington (paid more than $10 million in wages and benefits to people with disabilities during the most recent fiscal year)

Provides a variety of business and manufacturing services to corporations and government agencies: Staffing services offices in six cities; an electronics assembly plant and a variety of manufacturing, assembly and packaging services in northeast Portland; and separate divisions offering document imaging services and unarmed security services. Also operates three licensed computer training schools.

Annual operating budget:	$21 million
Number of staff members (FTE):	70
Number of people (unduplicated) served per year:	2,600

SENIOR MANAGEMENT TEAM

Chief Executive Officer:	Roy Soards
Chief Operating Officer:	Bennett Johnson
Vice President, Staffing Services:	John Miller

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