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Leadership Education and Development Newsletter

LEADER

*A publication designed to promote
visionary and forward-thinking
discussions between and among
the leaders of NCGA co-ops*

A Study Guide for Co-op Leaders Adventures in Transparency-land: Balancing Democratic Control with Business Realities



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Adventures in Transparency-land Balancing Democratic Control with Business Realities

By design and per the co-op principles, cooperatives are fully committed to democratic control of the co-op by its members. This is an inviolate cornerstone of what makes co-ops different from other kinds of businesses.

But given that co-ops operate in competitive markets, how do we balance democratic control and members' right to know what's happening at their co-op with the need to responsibly manage the co-op's assets—one of which is business information? How can we deal with proprietary information in a way that is responsible to the co-op (a business we own with hundreds, even thousands, of other members) and at the same time provide co-op member-owners with clear, useful information about *their* business?

Transparency should be easy, but it's not. Co-op boards need to draw the line as to what information will be readily available and shared with members—and when—and what information won't.

In this issue we offer four articles on how boards can find a reasonable balance on this topic. We include specific suggestions for handling confidential information and for conveying to members that a commitment to transparency doesn't mean full access to any and all information. The study guide in this issue offers typical scenarios for you to discuss as a board, so if similar scenarios arise, you'll be ready to handle them.



More about the LEADer

A publication designed to promote visionary and forward-thinking discussions between and among NCGA's Western Corridor co-op leadership

The LEADer is a quarterly study guide designed to foster visionary and forward-thinking discussions between and among co-op leaders. The LEADer is a publication of National Cooperative Grocers Association (NCGA) and strives to incorporate experiences and voices from all co-ops affiliated with NCGA. Each issue is produced by the Board Effectiveness Support Team (BEST), a volunteer committee made up of board leaders and general managers from co-ops around the country. We welcome those who would like to join us in this project.

The LEADer is available to all interested co-op leaders. This issue and all back issues are available online at <http://www.cooperativegrocer.coop/leader/index>. Those wishing to subscribe to the LEADer and have issues sent directly by e-mail as soon as they're available should contact Karen Zimbelman at kz@ncga.coop.

We welcome your reactions, suggestions, and contributions, as well as questions for us to answer in future issues. Send comments or questions to askthebest@ncga.coop. For more information about NCGA, the LEADer, or the BEST, contact Karen Zimbelman at:

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Through the Looking Glass

Make Your Board's Transparency Obvious

by Martha Whitman

Typically, the topic of transparency comes up only when a specific issue calls it into question. A member asks about potential locations for a new store, or an employee wants to know why someone was let go. Is the board free to speak?

Sometimes the answer is obvious. Other times—not so much. But considering our democratic structure, it is useful to develop practices that demonstrate transparency. Usually it's not a question of whether or not we're following such practices; it's that we don't always provide an easy way for members to see it.

Some of the more obvious transparency practices involve communication between the board and members. Here are ways to provide member access to the board:

- Allow members to address the board at regular board meetings, co-op community events, and the annual meeting.
- Produce an annual report for the annual meeting and archive it on the co-op's website.
- Provide board and management contact information in a variety of places (the newsletter, the store information desk, the website). Include pictures and bios of each director.
- Archive approved board minutes on the website.

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Through the Looking Glass

Make Your Board's Transparency Obvious

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Other transparency practices are about policies. Make it easy for members to understand how the board conducts its business:

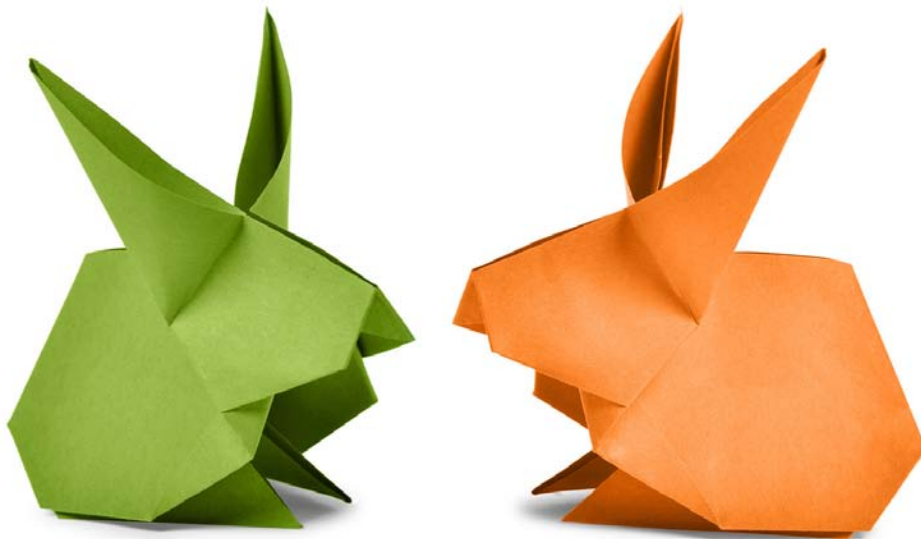
- Post your governance process on your website. Keep in mind that most members are probably not aware of the extent to which boards delegate authority to the general manager.
- Create a conflict-of-interest policy and review it at least annually.
- Allow members to review financial statements, but only in the co-op office. Have someone knowledgeable available to answer member questions about finances.
- Create a general manager compensation policy. While staff directors might not be given access to specific dollar amounts, all directors should be involved with establishing compensation criteria and should be able to comfortably discuss them with members.
- Hire an external accountant for annual reviews or audits.

Presenting your cooperative governance with transparency in mind serves everyone. Consider reviewing the concept annually; new directors will be appreciative of the information, and more seasoned directors will benefit from the review. Over time, everyone will be better equipped to handle requests for sensitive information, and members will become more trusting.

➔ Employee-Directors and GM Contract Issues

If your co-op allows employees to sit on the board of directors, you'll need clear policies for handling general manager personnel issues. Many co-ops allow employee-directors to participate fully in GM evaluations and goal setting but exclude them from GM salary discussions. It can be uncomfortable for a GM

to have an employee involved in determining his or her salary. The employee director can also face uncomfortable pressure from other co-op staff to reveal the GM's salary and compensation information. Consider these issues as you determine your policies.



Down the Rabbit Hole

A Look at Executive Sessions

by Cindy Owings

Does your board have a mechanism by which it can hold frank, informal discussions outside of regular board meetings? The executive session is that mechanism. It is essential to the governance of a co-op and is an underpinning of strong board leadership.

For effective executive sessions, take a few important steps:

- Clarify policy reasons for the use of executive sessions.
- Structure executive sessions to be productive and instructional rather than exclusionary and divisive.
- Make executive sessions known to the membership by mentioning, in general terms, the planned topics of sessions on board meeting agendas and in subsequent meeting minutes.
- Communicate meeting content and outcomes to the general manager to foster a healthy relationship between governance and management.

An executive session might be needed for:

- Review of annual financial audit results
- Evaluation of the general manager or a discussion of GM compensation
- Resolution of a conflict between specific board members
- Consideration of unfavorable reports about the GM or about individual board members

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Down the Rabbit Hole

A Look at Executive Sessions

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An executive session with the GM present might be needed for:

- Discussion of lawsuits, complaints, or grievances made by staff or former staff
- Consideration of real estate contracts or arrange
- Evaluation of the GM to achieve a greater understanding of expectations by both board and management

Suffice it to say, there are no hard and fast rules about conducting executive sessions. However, establishing a general list of topics to be addressed during an executive session is prudent.

There may be no need for detailed minutes of the session, but you should make a written public record naming the participants as well as the date, time, and location of the meeting. If minutes are taken, these must be kept confidential and be accessible to board members only.

The guiding principles for productive executive sessions are planning and notification. In other words, springing an executive session on unsuspecting board members and management is a sure road to perdition! But handled thoughtfully and with inclusion, executive sessions strengthen a board. Executive sessions can be compelling tools in a board's governance quiver. Give them a try—but with a fresh outlook!

→ Try This!

End Each Meeting with an Executive Session — Gail Graham

Over the last decade, there has been a growing trend among corporate and nonprofit boards to hold regular executive sessions without management present. At Mississippi Market Co-op, we adopted this practice about five years ago. A brief executive session without management is scheduled at the close of every board meeting. There are two primary reasons why I believe this is a “best practice.”

First, it helps the board develop a sense of itself as a body. Although GMs aren't voting members of the board, they do contribute to group dynamics. The GM is the repository of much information and experience—and what he or she says can carry a lot of weight at a board meeting. It can be intimidating to board members, especially new ones, to speak up with an opposing point of view. Having regular sessions without the GM can help create a “sense of self” for the board as a body, and this can promote critical thinking and board leadership.

Secondly, it can be intimidating for a GM to have the board request an executive session with notice and planning. The GM inevitably wonders, “Whatever might they be talking about that they don't want me to hear?” Routinely reserving time for executive sessions allows the board to meet absent staff without raising concerns that something must be wrong.

Routine executive sessions aren't designed for bringing up entirely new topics but rather will give directors a chance to reflect and comment further on issues that were before them at regular board meetings.

At Mississippi Market, executive sessions usually last less than 10 minutes. Directors don't keep minutes but merely note that “The board met in executive session from 2:30 to 2:40,” for example. Our board appreciates these regular opportunities to meet without the GM, and we view them as an invaluable tool for building a strong board.

Avoiding the Pool of Tears

Sometimes We Share; Sometimes We Don't

by Gail Graham

There is always tension between the desire to be transparent and the need to maintain confidentiality, and it is much easier to navigate this tension if ground rules are already in place. “Because I said so!” usually doesn’t work with kids—much less with grown-ups. So it won’t work for a board chair to say, “Okay, folks, I say we keep this confidential,” without a prior agreement about confidentiality.

Hopefully your board already has this figured out. If not, here are some ideas on how to get there.

First, it is important to have written statements about how the board will treat confidential information and to review confidentiality requirements when orienting new board members. Below is a confidentiality statement from the Mississippi Market Co-op board’s code of conduct. The board reviews and signs off on a copy every year at the meeting at which new board members are seated:

Members of the board maintain confidentiality *as needed* [emphasis mine] to protect the co-op’s interests and financial viability. They do not discuss disputed or confidential corporate actions or issues with co-op member-owners, employees, or the general public unless or until the board as a whole decides such information is no longer confidential. All issues related to personnel, real estate transactions, market strategy and goals, pending litigation, and details of the co-op’s financial status are considered sensitive issues subject to confidentiality unless or until the board as a whole approves full disclosure.

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Avoiding the Pool of Tears

Sometimes We Share; Sometimes We Don't

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How do we determine the meaning of “as needed”? It helps to have periodic explicit conversations about what sorts of information might need to be kept confidential. Of course, sometimes this is very clear. For instance, the board always handles GM review and salary discussions and other personnel issues in executive session.

If co-op employees sit on your board, there is an added dimension to consider when reviewing personnel information. Some boards may require employee-directors to recuse themselves from sessions; others may expect them to participate. A board should have clear expectations regarding employee-director participation and should avoid deciding whether to include employee-directors on a case-by-case basis.

The details of any legal issues, market studies, and real estate transactions discussed in executive session are understood to be confidential. Even so, it is a good discipline for the board chair to reiterate the need for confidentiality at any executive session where these matters are on the agenda.

Now and then something comes up in the course of a meeting and someone asks, “Should we keep this confidential?” We recently had a member complain in a letter about early-morning noise from deliveries. The member appealed to the board after not getting satisfaction from the GM. The board agreed that the minutes would reflect the member’s concern and the board’s support for the GM’s response but that to preserve the member’s privacy, the actual letter would not be part of the public record. It is helpful to be specific in stating when information is considered confidential so as to leave no doubt in anyone’s mind.

Recently a member e-mailed me, asking for quarterly statements. This person hadn’t been active at the co-op but had been very involved in an equity committee in a neighborhood where we were looking at a new location. Because we have guidelines in place, I didn’t feel like I was hiding something from her when I politely declined her request. I let her know that while I would be happy to review the statements with her in our

offices, at her convenience, I wasn’t going to mail her copies, since our quarterly financials are considered confidential information and we do not release them. In addition, I invited her to participate on a member committee to review the co-op’s year-end audit. Finally, I alerted the board chair to her request and shared my response. In this case, the member let it drop. Had she raised it as an issue with the board, the directors would have supported my response because they understand that transparency doesn’t mean we share everything.

Because our co-ops are member owned, it’s especially important to tackle this issue and do so before it is needed. It is worth the effort to ensure that the co-op board is comfortable with the need for some confidentiality and is comfortable insisting on it. If you have guidelines in place before situations come up, you will be better prepared to respond appropriately and will avoid an appearance of acting hastily to withhold information by hiding behind newly created rules.

In the King's Court

Being Judicious with Information

by Marcia Shaw

So, you've decided what you can put on your public website, what goes in the newsletter, and what information can be accessed by members with a higher need-to-know. Now, what do you do when a member is upset by those policies?

When a member wants to know the details of the co-op's financial situation, the price of real estate, or the specifics of the GM's last evaluation, the board can be faced with conflicting needs (and perhaps policies). You want to create an atmosphere of transparency and cooperation with members. On the other hand, good business practice may mean that only a small number of people can have access to information that impacts your decisions.

Previous issues of the *LEADER* have dealt with strategies for communication with a member who is upset or angry. Good listening skills will be invaluable to the board member who receives complaints about executive sessions or assertions such as, "Our co-op is supposed to be a democracy!"—with the implication being that everyone should have equal access to information about the details of the business.

Rather than citing policy or bylaws that allow the board to shield some information from the public eye, it's more helpful to understand what motivates the questions.

The emotional temperature often rises when members are afraid that the board is making decisions without enough information or without taking some factors into account.

Anxiety or fear may drive members to want to study the facts for themselves rather than taking it for granted that the board has done due diligence. Members may believe that they have some special expertise that the board needs (and lacks)

or that the values they hold dear are not being respected by the board. If you can calmly



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In the King's Court

Being Judicious with Information

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determine what is driving the questions, you'll have a better chance of providing information that will quell the anxieties.

Another strategy that may help is to explain the process the board has used to reach a decision. Once members can see the individual steps the board has gone through, they may feel reassured.

The board should take care to tell investigating members about larger issues that necessitate keeping some information secure. Privacy issues protect details of the GM's salary and evaluation, for example. Members should understand that they would not want their personal information broadcast should they be in a similar situation. A board dealing with real estate decisions also wants to keep some information quiet to put itself in the best negotiating position.

Unless the inquiring member has managed a large business, he or she might be put off by the size of a real estate purchase or a loan. The member may just need to be reassured that the amount is within the normal range for a business of your co-op's size.

As the market matures, every business needs to grow and diversify. Change is a part of the cooperative vision, and members can be included in the process without making public the details of your co-op's business situation.

Good business process, well-articulated policies, and good communication skills (especially active listening) will go a long way toward satisfying the member who wants more information. Once satisfied that the board has followed a well-thought-out process, the member will be less anxious.

The savvy board may also choose to explain its process and to answer frequently asked questions for the membership as a whole to avoid having many individual conversations. A positive and energetic outlook will also convince the membership that the co-op is being guided by practical and productive process.



HOW WOULD YOU HANDLE IT?

A LEADer STUDY GUIDE

YOUR OWN TEA PARTY

by Paige Lettington

The following situations related to the issue of transparency may arise in a food co-op. We suggest that your board use one or more of these scenarios as a role-playing exercise at an executive session or retreat. These situations tend to be uncomfortable, so it's helpful to work through them in a supportive environment.

For each scenario, have one board member play him- or herself and have others play members. Once the scene has played out, discuss how it went and offer suggestions and thoughts. Avoid being judgmental; these situations are difficult! Focus on how you can help each other deal more effectively with these kinds of scenarios as they come up.

These discussions may inspire you to develop new policies and guidelines to help individual board members, or the board as a whole, respond to these types of situations in the future.

- 1.** Your co-op has gone through a GM change, and the new GM has recently terminated a staff member. You are supportive of the GM, but a group of members and staff come to a board meeting to talk about the termination.
- 2.** Your co-op is contemplating expansion to a new location. The members have been made aware of this, but several locations are being considered, and those details have not yet been released. You are shopping in the store and a longtime member approaches you, wanting to know why the details are not available to member-owners.



HOW WOULD YOU HANDLE IT?

A LEADer STUDY GUIDE

3. A group of members and staff stand up at a board meeting and demand to know the GM's salary. They insist that there should be a limited pay differential between the highest- and lowest-paid staff members in a co-op and are concerned that the GM's compensation is too high. They're worried that the co-op is engaged in inequitable workplace practices and is violating its own core values.

4. The co-op has been sued by a former staff member who was injured on the job. A member-owner who is an attorney calls you. He wants to know how the injury happened and what steps the co-op is taking to ensure that no one else is injured in this way.

