spring 2014 · issue 23

Leadership Education and Development Newsletter

LEADer

A publication designed to promote visionary and forward-thinking discussions between and among food co-op leaders

A Study Guide for Co-op Leaders

Stealing Second Base

Considering Risky Issues for the Co-op

In This Issue

Stealing Second Base

Considering Risky Issues for the Co-op

Being a co-op board member means making business decisions, and making business decisions means embracing the risks that come with them. Business risks are part of day-to-day decisions—whom to hire, how to train staff, which bills to pay, which vendors to select—as well as larger and more strategic decisions that require study, cost-benefit analysis, and detailed projections.

For co-ops to have meaningful impact in their communities, they need to be prepared to take on risk, and directors need to develop their skills and hone their comfort level with facing risky decisions. What do you need to know? Who can provide you with expertise to guide your

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Progress always involves risks. You can't steal second base and keep your foot on first. — Frederick B. Wilcox

More about the

LEADer

A publication designed to promote visionary and forward-thinking discussions between and among food co-op leaders

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 voluntary 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:

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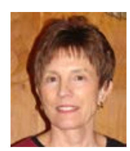

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Risk Happens! Every Day

by Lucinda Berdon

Baseball is a lot like life. It's a day-to-day existence, full of ups and downs. You make the most of your opportunities in baseball as you do in life.

—Ernie Harwell

Let's face it: the grocery business is a risky business. Risk makes up a natural part of a food co-op's life cycle; it's inevitable. We face strategic, operational, and hazard risks, large and small. All business risks can be driven by both internal and external factors, and all business risks can have financial consequences.

Board members should be comforted that the co-op's general manager deals with many different levels of risk daily. GMs are constantly being thrown curve balls. Here are just a few examples of things GMs deal with all the time:

- **Competition** The natural foods business has become very competitive. Margins are squeezed tight, so co-ops have to rely on a heavy volume of product sales. Managers make decisions every day about product pricing and selection. They have to find ways to staff the store efficiently and affordably. Equipment needs to be replaced, and that sometimes involves large capital investments or resetting parts of the store. Inevitably, such routine changes lead to disappointed customers who can't find a favorite product or just don't like the change.

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Risk Happens! Every Day

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- **Personnel and Human Resources** Hiring, firing, compensation, and performance issues can be some of the most stressful things managers have to deal with. GMs must hire the right people, hire the right number of people, terminate unsuitable employees, train and develop talent, plan for succession, comply with laws, and have good ethics at the top.
- **Hazard or Injury-Related Risk** Whether it's stocking shelves, working in the deli, handling cash, or managing day-to-day operations, all jobs in a co-op carry some risk of injury. GMs must be sure that lighting is adequate, that staff members have the right tools, and that work stations and check stands are set up ergonomically.

Most general managers have a reasonably high tolerance for risk—it's part of the job, and daily practice helps. The GM's risk appetite is guided by experience, by the monitoring of systems and results, and by his or her personal business philosophy. Regular practice in handling day-to-day risks keeps general managers agile and prepares them for taking on bigger risks and opportunities. Routine exposure to risk also strengthens managers' trust in their own intuition.

When it comes to big decisions made by the board, the GM's job is to identify the scope of risk involved and to help the board understand the risk so it can act. The board needs an overview and assessment of the risk: What are the key risk factors? What are the key metrics used by management as leading indicators? Are there external factors to consider? What's the economy doing? Is there a drought in your state or region? What trends should you be evaluating?

Every co-op needs some appetite for risk. The key is to focus on the highest-priority risks—the ones that will have the most impact on your co-op. Weigh the benefits of taking a risk versus the risk of doing nothing. And remember that you don't hit a home run by sitting in the dugout. Or, as Babe Ruth said, "Never allow the fear of striking out to keep you from playing the game."

Risk Is a Good Thing

Avoiding the Trap of Being Risk Averse

by Gail Graham

There are three types of baseball players: Those who make it happen, those who watch it happen, and those who wonder what happens.

—Tommy Lasorda

Getting comfortable with risks is part of everyday life. It is not uncommon to feel nervous and apprehensive when faced with something new and then to gain confidence as you gain experience.

How do we build this confidence in our co-ops, which tend to be fairly conservative and are often risk averse? The board is entrusted to oversee the health of the cooperative; it is a weighty responsibility to protect the assets of member-owners. But to be too cautious, to be risk averse, is not a good thing.

Risk is all about uncertainty in the context of value creation and value protection. When faced with a decision about whether or not to take a risk, we consider what is at stake. We don't know for sure if we will succeed or if the pain will be worth the gain.

It is important for co-ops to become comfortable with the idea of taking risks. Risk is inescapable; every time we change and grow, we risk something. There are a number of things a board can do to increase its comfort level around risk. As in everyday life, as we build experience, we build confidence. A board can build confidence about facing risk simply by facing it.

All organizations face preventable risk—internal risks that don't provide any advantage and should be avoided. At the most basic level, the board can put rules in place to control and help the co-op avoid preventable risks. This process can include something as simple as having a code of conduct for the board and managers or as elaborate as an annual asset protection review, during which the general manager reviews insurance coverage and security practices and procedures.

A second type of risk, strategic risk, can be more difficult for a board to get comfortable with—even though the outcomes aren't necessarily

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Risk Is a Good Thing

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undesirable. Perhaps the best thing the board can do is foster open dialogue and encourage individual directors and staff to challenge assumptions and to ask, "What if . . . ?"

At Mississippi Market, we are in the midst of raising member loans for a third store. Over a year ago, at a board–management retreat, participants discussed "What keeps you up at night about this project?" It was a powerful conversation valued by both directors and managers, and it helped us examine, discuss, and understand some of the risks we face.

Gathering information is another useful approach when evaluating strategic risk. When investigating a new project, in addition to asking the pro forma questions, ask for a worst-case scenario. Challenge management to think about what could go wrong and to consider how they might navigate if things did get off track. And for any major capital project, of course build an overrun allowance into your plans.

No one likes to spend time and energy focusing on bad things that might happen, but boards should also discuss external risks. Some of this discussion can come out in a traditional SWOT (strengths, weaknesses, opportunities, and threats) exercise. What are the threats we face? How might we address them? Perhaps the board will task management with developing disaster preparedness plans or business continuity plans. By their very nature, you can't control external risks, but it can be helpful to think about how you would react to them.

Like it or not, our success is to a great extent driven by how we face risks, take risks, and manage risks. By engaging in open dialogue, gathering information, and understanding that risk is an intentional interaction with uncertainty, co-op boards can develop a culture where appropriate risk taking is the norm. Risk oversight is not just a process that a board engages in; it is foundational to how the board and management work together to make sound decisions.

Stealing Second Base

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decision making? How will the co-op handle it if things don't go as planned? What are the big assumptions baked into management's projections and are they reasonable? What is the potential exit position? What are the consequences of going ahead or of not deciding now?

These are the kinds of questions the effective board will want to explore in moving ahead on a decision that carries big risk. In this issue we offer four articles to help directors embrace the risk that comes with the job and to provide guidance on handling risky decisions. The study guide offers a series of questions and scenarios for discussion.

And the day came when the risk to remain tight in a bud was more painful than the risk it took to blossom. — *Anaïs Nin*

The Risk of Doing Nothing

by Philip Buri

> *In theory there's no difference between theory and practice. In practice there is.*
>
> —Yogi Berra

I have noticed a paradox with co-op board members. Politically, we tend to be progressive, open to change, and ready to transform entrenched institutions. But when it comes to leveraging our co-ops, we get very conservative very quickly. We have a natural desire to protect what we have, what we have worked so hard to create. Yet we also know that our economy, our communities, and our co-ops are dynamic. Every choice we make—including the choice to do nothing—has consequences. There is a risk to doing nothing.

Co-ops are uniquely prone to do nothing in a dynamic market. First, we are democratic institutions, designed to be deliberative and slow in the face of uncertainty. Second, we are stewards of our members' capital. Directors view most risk as unacceptable; our greatest fear is to be the board that took down the co-op. Third, in contrast to multinational corporations, which rebrand themselves every few years, co-ops prize stability and reliability. We guard against any controversy that will arouse our members.

But avoiding risk leads to paralysis. Our members elect us to make decisions and, when appropriate, take risks to expand our reach in the marketplace. Financial success and growth are not selling out if we follow our core values. A bigger store, a bigger market, a bigger balance sheet means that organic farmers have an easier time selling

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The Risk of Doing Nothing

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their products. The greatest risk—squeezing producers and customers to generate higher profits—has less sway in an organization serving members not shareholders.

The greatest threat to our co-ops is doing nothing. By distrusting success in the market, we put at risk what we so desperately want to protect. Our membership will understand if we act in good faith and fail. They will understand if we swing and miss. What they will not understand, and should not forgive, is our failure to act because we worried about taking risks.

We choose our path and walk, not knowing the final destination.

Philip Buri is a former board member and board president at Community Food Co-op of Bellingham, Washington, and a former member of the BEST and contributor to the *LEADer.*

Good to Know!

The Business Judgment Rule — *by Martha Whitman*

How many of us really knew what we signed on for when we ran for a seat on the co-op board? Typical motivation runs the gamut from wanting to give back to our beloved co-op to wanting to fix a perceived problem. Then we get elected, and it dawns on us that we just accepted a boatload of responsibility.

Being a co-op director is a big deal—individual board members are in the hot seat for the health and wealth of the co-op. Regardless of how much we delegate that job to the general manager, we can't delegate the accountability. So what happens if a general manager's decision goes south, an expansion plan goes terribly wrong, or the co-op is sued for gross negligence?

Lucky for us, hindsight isn't a legal premise for culpability. Instead, the board's actions will be evaluated against what's known as the business judgment rule. This pattern of legal rulings looks not at the merit of a decision made but at the process used to arrive at the decision. Directors (like everyone else) can't guarantee success, but they must be able to show that they acted responsibly.

To satisfy guidelines of the business judgment rule, a board of directors must act in good faith, act in the best interests of the co-op, not be wasteful, and not involve self-interest in decisions. How might these concepts translate into practice at your co-op? They should take the form of policies and procedures that demonstrate that directors take care in making decisions and use judgment that an "ordinarily prudent person in a like position would exercise under similar circumstances."

Calculating the Risk

by Marcia Shaw

Every day is a new opportunity. You can build on yesterday's success or put its failures behind and start over again. That's the way life is, with a new game every day, and that's the way baseball is.

—Bob Feller

As you think about the risks your co-op takes (or doesn't take), a large part of your assessment should take into account your own personal comfort with risk. Do you describe yourself as a risk taker or as someone who is conservative when it comes to taking risks? And what specifically feels like a risk to you? Would you find it fun to go hang gliding or to parachute out of a plane? Do you get a rush from gambling or do you go to Las Vegas only for the shows? Do you bet on things when there's a lot at stake or only when you're darn sure you're right?

Tolerance for risk is one marker of an entrepreneurial person, but you're on the co-op board to take calculated risks for the whole enterprise. Most of us feel the weight of that responsibility very acutely. We'd feel bad if the choices we made damaged our beloved co-op. It's important to know if you are relatively in sync with the rest of the board regarding risk, or if you are significantly more or less likely to go for it when shown an opportunity that is not a sure thing.

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Calculating the Risk

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If you answered the questions in the first paragraph with "It depends," let's push a little further into the questions. What does it depend on? Are you convinced by lots of detailed data? Or do you feel better about leaping if most everyone agrees with you?

Many people are more likely to take a risk if the "experts" agree that it is reasonable, but what exactly is an expert? To be credible, an expert should have specialized knowledge, experience, or training. It also helps if the expert shares our values and would likely make the same choices we'd make.

Sometimes it's useful to make your uneasy feelings more concrete. What's the worst that could happen if you took this risk and it didn't work out? If you walk through what you really fear, you may find that it's not so bad, that you can reduce the negative impacts, or that you can create a Plan B. We fear the dark cloud swirling, but if you actually look at it, what feels like a disaster may be more manageable than you first thought. Even as you make a decision for which the outcome is unknown, you can take steps to make sure that it does not bring about disaster.

Elsewhere in this issue, Phil Buri writes about the risk of doing nothing. We could add to that discussion the risk of taking little steps when a big step is needed. Your banker might provide a limit to your financial exposure, but there is no general rule about how much risk is the right amount for a board or a co-op. To guide your cooperative business, you need some tolerance for the unknown, because you never know how a given plan will turn out. Can you risk it?

QUESTIONS AS YOU CONSIDER RISKY ISSUES

by Paige Lettington and Cindy Owings

Every co-op faces risky decisions at some point. In reviewing a risky issue, answer the following questions:

- What outside, expert advice could assist your board?
- What about this decision keeps board members up at night? How can you identify and address those factors?
- What is the worst-case scenario? Does your board have the stamina to weather possible failure? How would the co-op deal with or manage itself out of a worst-case outcome?
- What risks in this project are preventable?
- What are your strengths, weaknesses, opportunities, and threats in this situation?
- Is the entire board willing to participate in assuming risk and to what degree?
- Does the board have a shared vision about what this opportunity can bring to the co-op and its members?
- How do you communicate project risks to member-owners to glean their input and support?
- Would the risk be considered within the bounds of your co-op's mission and vision?

Don't look back. Something might be gaining on you.

— Satchel Paige

RISKY ISSUES

A LEAD*er* STUDY GUIDE

Now consider and discuss each of the following scenarios to consider how your board would proceed. Pick a couple appropriate questions from the list on the previous page to help guide your discussion and consideration.

- **Expansion** Your co-op is bursting at the seams and the general manager recommends an expansion. She has explored many options and has two for board consideration. The co-op could move into a leased space at a new shopping center 10 miles down the road or buy the building next door, which needs work but is big enough for many years to come.

- **Hiring a New GM** Your general manager has a family emergency and has to quit immediately and move to the other side of the country.

- **Changing Product Mix** Your GM wants to make changes to the co-op's product line by: going organic only; or adding mainstream and conventional products to serve a broader base of shoppers; or adding high-quality meat (which the co-op has never sold), because it's a growing category in the industry.

- **Or, Your Own Scenario** What risky issue is your co-op facing or has it faced? Use this exercise to "deconstruct" it or try to move the discussion forward.