ONEOTA COOPERATIVE BOARD MEETING SPECTRUM NETWORK February 26, 2009

Board members present: Steve P., Georgie K., Toni S., Onita M., Lyle L., Keith L., Joan L.

GM: Troy Bond

Nine members present.

President Steve P. called the meeting to order at 5:07pm.

<u>Agenda review</u>: The board added items about the board election and member investments. Lyle moved to approve agenda as amended. Joan seconded. Approved unanimously.

Member Comments: Steve McCargar asked if there is an answer to the question, "who can decide whether Liz Rog is reinstated?" Steve P. said that would be addressed at this meeting. Steve M. asked if the minutes from January 29, 2009, that will be approved at this meeting, reflect the fact that the financial report was incorrect? The board responded that the minutes would reflect was was reported at that meeting. Troy said he had corrected financial information he will report at this meeting. Steve M. noted that the term "organic" had been omitted from the draft Ends Policies. He would like to see it put back, since he thought it was the only term with international standards. The board said there would be opportunities for further discussion about the Ends Policies and the board would be seeking member input.

<u>Board Statement</u>: Steve P. said the board had compiled many of the comments that were made concerning Liz Rog's termination, the co-op's finances, and other issues. The board will report orally on the questions raised at the January meeting, rather than issuing a written statement. The layoff of Liz Rog created strong feelings concerning the way it was done and the terms uses to describe it. Members have questioned its abruptness, the use of the term, "without cause," and whether proper procedures were followed.

Layoffs are often abrupt. In lieu of a two-week notice, there was a severance package of two week's pay for all laid-off employees. The words "without cause" appear to have been misconstrued as being "without reason." The board has given two reasons, economic need and organizational restructuring. The Co-op's financial situation was and still is dire. The cash drain may have stabilized, now that labor expenses have been cut, but the coop still needs to be mindful of expenses. The membership/marketing position that Liz held no longer exists. It has been absorbed by Troy and other employees. The board's focus has to be on the survival of the store.

There have been concerns expressed about the professionalism of the layoff and the statement that Liz would not be eligible for rehire. The board will not comment on those

matters. It was not present at the layoff meeting. The board was advised that Michelle Schry's HR director was present. The board has not seen Liz Rog's personnel file, and it did not think it would be appropriate that it should. The board's role in staff treatment is to review to see that no laws were violated, that board policy was complied with, and that all relevant employment agreements were honored. The board was satisfied that Liz's layoff did not violate any of those standards.

Joan talked about communication. The board was happy to report that the GM and the co-op had made progress on financial monitoring and reporting. The board appreciates the weekly updates it is receiving from Troy. The avenues for staff-board communication have been clarified. In addition, Troy plans to do a twice-yearly anonymous staff survey. This is more than many other co-ops do, but the board believes it is the right action.

Georgie talked about Christopher DeAngelis' tenure as GM. She noted that questions had been raised as to his competence. Before Christopher was hired, a search committee, consisting of board and staff members, interviewed several people by phone and three people in person. None of those people worked out. The board renewed the search process. At that time, Georgie received a phone call from Steve McCargar encouraging the board to consider Christopher. After interviewing, he was hired.

Christopher faced many challenges. The expansion project was in mid-process. The coop was just about to take possession of the former Lathum building and renovations were to begin. Planning and design for the new space had been a difficult process and was not entirely completed. Earlier in the design process, then co-managers Liz Rog and Steve McCarger had asked the board to consider choosing which of them would have the final say in decisions. The project manager resigned before the new store project was completed. It was then necessary for Christopher to oversee all the details of the expansion. Christopher was having frequent meetings with contractors and subcontractors. This meant that he did not have time bring store operations up to speed pursuant to the recommendations that had been made by consultant Mel Braverman.

Christopher had a very tough situation. Georgie said she did not think that anybody could have done much better than he did. He successfully moved the co-op into a new store. Sales were good, considering. Christopher reported to the board in early spring 2008 that there were morale problems with employees.

Lyle addressed the question, "Is this a failure of governance, a failure to understand that there was a problem, or is this something different?" The board did understand that there were issues, because Christopher told the board about them. He was very candid about the lack of unity among the staff and management as to how to proceed in operating the new store. The board was informed continuously about the struggle to get labor costs under control. It is difficult to say who was at fault in these matters, but the board was certainly aware of the issues.

In the spring of 2008, the board adopted a revised set of governance policies. It was learning its new role in doing regular monitoring of the policies, including monitoring financial performance. The general theory is that board assigns responsibility to the GM, delegates authority, and monitors to hold the GM accountable. Accountability is not just saying "this is wrong," but also deciding how to approach an issue and correct it. The goal is not to make people fail. It is to encourage success.

The board understood the problems of labor costs and that the co-op needed to reduce them to a more reasonable level. It is not unusual for people new to a situation to not have a total understanding of all the things that need to be done. The board, GM and staff were all learning to adjust to a new environment last year. Growing the store the way we did was not a trivial task. We are all still learning.

One could ask, "If the board knew the GM was having these challenges, why did you continue to employ him?" The board's response is, "It's not that simple." To attempt to find a general manager is a large undertaking. When Christopher was hired, the co-op was facing two of the biggest challenges an organization can take on: change of management style, and moving to a larger facility. Everyone had some degree of frustration and success.

The board thought it was worth trying to work through the issues by having Christopher gain skills through outside consultants and management peer support. Had he been let go, the board would have found itself having to come up with interim management as well as doing a search for a new GM who could properly fill the position. These were not trivial considerations.

The NCGA audit turned up several things that needed to be addressed. The major issue was finances. At that point, in late October 2008, the board had no way of knowing how the economic climate was about to shift even further.

If the channels of communication between staff, management, and the board had been very clear last year, would that have changed the outcome? Would it have changed the fact that Liz and others were laid off? The board's answer is, "No."

Members have asked if the board was aware that the layoffs were going to happen. Yes, Michelle Schry advised the board that layoffs would be done and that there was a possibility that Liz Rog would be among the layoffs. It was obvious to the board that such an action would have the potential for negative repercussions. The board was willing to withstand the reaction. It felt that action needed to be taken to make the co-op financially viable.

Lyle said he hoped the membership would not see the events of the past year as a failure of policy governance. Management succession is a difficult process. If there is no new

GM lined up when the other one leaves, an interim GM must be found. Interim managers generally come into situations where something needs to be done quickly to resolve a critical business situation. They are not easy to find on short notice, and they are not inexpensive, as the board discovered.

Steve McCargar wanted to ask a question about the NCGA Audit Team recommending that Christopher resign. The board said it would not discuss it.

Onita reported on the search for an interim and full-time GM. When Christopher advised the board that he would be resigning, the board knew that it would need an interim GM with business turn-around experience. After a search and interview process, the board lined up an interim GM who was a professional turn-around manager. He could not start until late January 2009, and he was going to be quite expensive.

Given the economic situation at the co-op, the board sought a second, short-term interim GM who could start earlier. That was when Michelle Schry said that she would do the interim GM job for December and January. When she agreed to do this, the board agreed to support her in whatever actions were necessary to stop the bleed of cash and help restore the co-op's financial stability.

Some members have said that Michelle Schry made decisions that an interim GM should not have been allowed to make. The board disagrees. The co-op could not afford to have an interim GM who was going to continue the status quo. The board had no idea when a new GM would be hired. The actions that were needed to improve the co-op's financial viability had to get started soon.

When the board was looking for the first, and then second, interim GM, it was aware that an interim manager would potentially take actions that might be damaging to staff morale. The interim's goal would be to move the store to a better financial footing. The board was mindful that a professional turn-around specialist would not necessarily give much consideration to the existing workplace culture. That was why the board was glad to have Michelle Schry act as interim GM, because she was familiar with our co-op. Luckily, the board's GM search produced Troy Bond, who was able to start in late January. The second interim GM was not needed.

Steve P. talked about how the board oversees the GM. The board sets policies on organizational goals, or "ends," which are things that the co-op should be striving toward. It also sets policies on executive limitations, which are means the GM should not use to achieve the ends, or basically, things that the GM should not do. The board gets information to monitor the store's and the GM's performance primarily from the GM, and it insists on objective and truthful information. The board can use other methods to obtain information if it deems it appropriate. It may conduct direct inspection or seek independent expert reports, such as audit reviews, staff surveys, legal advice, and the like.

The board is charged with getting information and using it to judge whether the store is performing the way it should.

The board's relationship with the GM is larger than policy monitoring. There is a continual loop of communication back and forth. It is not a trivial relationship. The board does not abdicate responsibility by delegating authority to the GM. This gathering of information and review of the board's expectations of the GM is stricter and more rigorous now than it has even been since any of the current members came on the board. There has always been a history of professionalism on the board, and that is being moved to a higher level.

There have been member questions about what accountability the interim GM has to the board, since it is a short-term relationship. Accountability flows from the gathering of information and the verification of that information. In addition, it flows from clear goal-setting prior to the board hiring the interim GM. When the board hired Michelle Schry, it charged her with the task beginning a financial turn-around by reducing labor and inventory expenses. She was also to get the financial monitoring systems in order. While Michelle was acting as interim GM, the board monitored the goals. It believes Michelle's performance towards meeting the goals was admirable.

The board communicated the interim GM's goals to staff at a meeting that announced Michelle was hired for the position. In addition, the board warned staff that the co-op's need for financial turn-around was so important that there might be layoffs, changes in benefits, changes in job duties, restructuring and other changes.

In regard to personnel decisions, the board does not take any position advocating the hiring or firing of any staff. It will not urge Troy to reinstate Liz Rog. Staffing is a management decision. The board must be loyal to the interests of the co-op as a whole. That is a requirement of its code of conduct.

The board's role in personnel matters is to set expectations in its governance policies on staff treatment. On the operational level, there is a personnel policy handbook. It deals with very specific issues. The board also requires that employment laws, workplace rules and legally binding contracts not be violated. If there is any noncompliance, the GM is required to report it to the board and give a time frame for bringing the store into compliance.

The board routinely reflects on its policies and decides whether they should be changed, whether policies should be tightened or loosened. The policies are changeable by the board, but it feels that it would be imprudent change the staff treatment policies to protect individual staff members. Who would be protected, and for how long? How would this impact the GM's ability to manage the store?

The board reported that it had reviewed the staff layoffs, including that of Liz Rog, and found that they complied with the Co-op's and board's policies. The board found no violations of law. The governing employment policies (in Liz's case, written agreement) were followed.

The board needs to focus its attention on the future. Much work lies ahead. The board needs to do careful monitoring of co-op finances, and ensure that the store is making progress towards a secure financial future. The board needs to assist in raising working capital. It wants to move forward on the discussion of the organization's goals, or "ends policies," so that the co-op can have the beginnings of a strategic plan. Mere survival after expansion is not enough. The co-op needs to think about long-term plans. These conversations are going to be very exciting, and very hopeful.

The board wants to foster a process for member-board communication and understanding. Not only does the board need to communicate with members and hear member concerns, it needs to understand who the co-op members are and what they need. There are processes the board can follow to do that.

Another thing the board would like to do is to work with Troy and the staff to develop survey tools to monitor more closely the staff treatment policies and compensation policies that we have. The board wants to develop a useful schedule for getting third-party verification of store performance. In the past, it has relied almost exclusively on management reports, mostly because independent reports are often expensive. However, it is time that the board developed a clear way of getting data that will allow it to verify data from the GM.

The board will continue its own professional development through educational webinars offered through CBLD (Cooperative Board Leadership Development). One of these webinars is on governing a co-op through a recession. Planning for board leadership succession is another. Boards and strategic thinking, dealing with complaints from members and staff, bylaws, and grievance procedures are some more classes.

Finally, the board would like to develop a systematic and structured approach to GM compensation. This is a short list of things the board would like to move forward on.

Approval of Minutes -1/29/2009: Georgie moved approval of the minutes. Lyle seconded. Approved unanimously.

GM Policy Monitoring, L5 Financial Conditions (ongoing monitoring): Troy gave a presentation on the co-op's current financial situation. Looking at the larger natural foods industry, many leading businesses are suffering. Whole Foods reported negative 4% sales growth in the last quarter. New Pioneer has flat sales. Customers are trading down, shopping for cheaper items at Wal-mart, Target, Fareway and other places. Oneota is not the only business that is in this situation.

Troy reported on Quick and Current Ratios. The Quick Ratio is cash divided by current liabilities; Current Ratio is current assets divided by current liabilities. A healthy business would generally have a quick ratio of 1, and a current ratio of 2. Oneota's current quick ratio is .35, and the current ratio is 1.07. These figures have improved since the year-end report in January. The good news is that labor dollars are really starting to decrease. Labor costs are coming under control, which is critical for the co-op's continued survival.

Troy said he had not heard a single comment on the floor or elsewhere that customer service has started to drop. If it comes to the point where there is scant or bad customer service, he will obviously revisit the staffing levels.

The available cash on hand is about \$1,000 in checking, \$43,000 in savings (two accounts), and \$8-9000 in a trust account. Troy said when he started, there was about \$45,000 in checking. He has not had to transfer money from savings yet.

Troy had a bar graph showing that there were 300 more labor hours per week for the month of February in 2008 than in 2009. This helps explain why the co-op does not have enough operating capital after a year in the store. Staffing levels were too high.

There will be a store inventory Sunday morning at 6 a.m., for the end of February. This is an unscheduled inventory, so that when the store does its end-of-quarter inventory at the end of March, Troy can understand the system and catch any anomalies. Margin is something needs to be watched, and this inventory will give the management team assistance with that.

The board commended Troy for getting the board weekly reports on sales, labor and other financial indicators. They appreciate that very much. The trend data is useful to see over time.

Troy reported on marketing efforts. He will present a fuller report next month. He is working with Nate, planning some changes in focus to get the co-op's message, its "brand," out into the larger community. They will be working on the store's price/value image. They are already planning to do some things out in the community. Troy wants to make the store a destination, to create a positive energy in the store for customers to come in and enjoy. They plan to have some shopping theme for each Saturday from 11:00 to2:00. It will not require additional labor hours, just some samples, a few signs, and some additional focus. The Valentine's Day chocolate sample day was a big success. Upcoming is a focus on the bulk department. The co-op needs to work harder to make sales. Products do not sell themselves as easily as they did when the store first opened.

The next step is to have employees take that extra step to let customers know what the co-op is all about. With new customers especially, the staff needs to show them around

the store. There is a perception that the co-op is a bit of a "club," so we want to make everyone feel welcome. The next Scoop is going to be about value image, to try to overcome the idea that the co-op is very expensive.

Aaron is a great example of a success story. He took over an end-cap and put out a big stack of affordable wines. Sales increased by double digits. Frances has also been focusing on building end-caps. They plan to have chalkboards above the end-caps to showcase the CAP sale items.

Troy noted that the end-of-year sales figures that Michelle had reported were \$3000 short. Sales for 2008 were \$3.042 million.

The HVAC system will need an upgrade to avoid possible damage to the refrigeration units. A system for dehumidification needs to be added. The current air handler can remain in place. So far, Troy has been advised that parts alone will cost \$3000. He will keep the board advised as cost estimates for the project come in.

<u>Board Policy Monitoring</u>, <u>D Global Board Management Commitment</u>: Policy <u>D</u> is the global, or overall, board-management expectation. The board's sole official connection to the organization will be through the GM. The board holds the GM solely responsible for the co-op's management, not other employees. While the GM is charged by the board with presenting truthful information to the board, the board should also gather third-party information, where appropriate.

The board will evaluate the GM's performance based on how well the store performs in fulfilling its goals, while avoiding the limitations identified by the board. The board has the responsibility to spell out the expectations of the GM. The board may change its expectations for the overall goals of the organization.

Compliance was reported. The board agreed that the interpretations were reasonable, the data was adequate and supported the finding of compliance. Lyle moved to accept the report. Georgie seconded. Approved unanimously.

<u>Discussion – Special Member Meeting</u>: Georgie reported that the petition that was submitted had 471 signatures. There was a lost petition signature sheet that had two signatures, one of which was a duplicate, so there was a total of 472 signatures. The POS data indicated there were 2277 members in good standing as of the date the petition was submitted. Twenty percent equals 455 necessary to meet the threshold for a member-called special meeting. Georgie reported that after striking the signers who were not in good standing, there were 447 signatures. Birgitta Meade reviewed the data with Georgie and was satisfied that the signature count was accurate. The member petition did not meet the number required to call a meeting.

The board discussed whether it would, on its own initiative, call a special membership meeting. If it did, it would need to specify a purpose for the meeting. The board would like to talk about governance and member-board communication. The board has received comments from various perspectives, many expressing confidence in the board's actions, and others questioning its competence, or showing a lack of understanding of the board's role in store operations. The board has various roles, in oversight and as trustees. The best way for members to understand how the board functions is to attend its regular meetings, but most people are not motivated to do that unless there is some special issue that draws their attention.

The board's governance policies are meant to represent the best interests of the co-op as a whole over time. There is a built-in inertia to prevent the board from acting based on emotion. The board is a deliberative body. It does not make direct operational decisions.

The board did not want to call a special meeting for the same purpose as the petition that had failed. It agreed, after discussion, that it would not call any meeting to address the issue of reinstatement. Any board-initiated meeting would have agenda items that the board wanted to pursue with the membership. The board would like to discuss and receive member input on the organizational goals (ends policies), policy governance and member-board communication. The mechanisms to do this include: 1) a board-called special membership meeting, which would require 10 day written notice, 2) focus groups for information gathering, 3) a public meeting where anyone could attend, or 4) a special board meeting. Mailing of the 10-day notice for a special membership meeting, plus rental of space and sound system, would cost about \$700. The board had intended to do a series of focus groups in February and March on the ends policies, but its attention has been pulled away to other issues. The board agreed that any meeting that was called would have to be for a purpose that served the co-op as a whole, that gave energy, and did not drain energy.

Georgie moved to hold an extra board meeting in March, for the purpose of discussing member-owner communication with the board, getting member input on the ends policies, and explaining policy governance. The meeting date will be March 18th. Keith seconded. Discussion. The meeting notice would be by e-mail and posting notice at the co-op. The motion was approve unanimously. Georgie and Lyle volunteered to do the planning and publicity for the meeting and draft the meeting announcement.

<u>2008 Patronage Dividend</u>: Joan moved that the co-op not issue a patron dividend this year, as the co-op had a net loss for the year. Toni seconded. Approved unanimously.

<u>Discussion – Member-Board connection (ad hoc committee)</u>: The board would like to develop methods of not just communicating with members but understanding what members want and need from the store. Lyle moved to table the discussion until the next meeting. Joan seconded. Approved unanimously.

Annual Meeting: Georgie moved to have the annual meeting on April 2, 2009 at 7:30 p.m. Lyle seconded. Approved unanimously. The location will be determined by the committee for organizing the meeting. It has ordinarily been at the Good Shepherd Church. The ordinary business of the meeting can be conducted by the members present for the meeting. The only vote that happens at the annual meeting is to approve the minutes from the prior year. No substantive issues could be addressed. Members not present must have notice and an opportunity to vote on any substantive issues.

<u>Discussion – Moving the Ends policies along</u>: There will be the extra board meeting and a segment at the annual meeting to discuss them.

<u>Board Election</u>: Two non-members will go through the ballots after the close of business on March 27, 2009 and verify "members in good standing." If there are multiple people from one household who are registered to use one membership number, any one person from that household may vote, but there can only be one vote per membership. If the membership number on the ballot is incorrect, but the member in in good standing in other respects, the ballot will be counted.

<u>Member Investment</u>: The co-op needs operating capital – cash. It needs another \$30-40,000 so that it be sure of paying bills in a timely manner and meeting emergency expenses at they come up.

The board said at its last meeting that it would not ask for member investment until it was satisfied that the cash bleed had been stopped. Is the co-op at the point where the board can say the store is being run as leanly as possible? Are expenses being controlled? Troy will get a Quickbooks report on expenses by category. He advised that there may be more labor reductions in the future. The board would like an update on inventory also. Michelle reduced inventory by 10 percent.

Data that should be available to investors include sales trends, net income, margins and labor expense. The quick and current ratios have been improving since the beginning of the year.

Troy noted that the co-op also needed to address the HVAC situation. The previous cost estimate for upgrading the system was \$30,000. He is getting new estimates and will report back to the board.

An appeal for member investment should be framed as optimistically as may be supported by the data. Given the macroeconomic trends, the co-op needs to convince investors that operations are being run on a sound basis.

The board asked Troy to review the database of the people who invested money in the last member capital drive. The co-op raised about \$335,000 for the expansion, in

addition to around \$65,000 in preferred shares. Joan noted that accrued interest on the member loans was an item that should be included in the balance sheet.

MEETING DATE for next regular board meeting: Tuesday, March 24th at 5:00 p.m. The board will resume the regular meeting schedule of the 4th Tuesday of every month.

Assignments: Lyle will do the board monitoring for next month. Troy will do an update on the L5, Financial Conditions.

Toni moved to adjourn. Georgie seconded. Approved unanimously.

Meeting adjourned 8:22 p.m.

Respectfully submitted,

Onita Mohr, board secretary

Carolyn Thompson, scribe