Premature Expansion Forces a Co-op Recovery

BY MARY OVERLIE

"Everything I'm not happy about was because we didn't implement it completely, not the system itself," reflects Dennis Montgomery, former chair of the Harmony Co-op board in Bemidji, Minn. The story is one of recovery during a crisis.

In fall of 2012, about 18 months into its new store, Harmony's board found itself in meetings with the National Co+op Grocers' (NCG) version of a crisis intervention team to counsel on ways to stop the bleeding of cash and other indicators of instability that were severely hampering the store's progress: failure to meet margins, long-term and short-term debt maximized, and cash reserves negative despite budget-breaking sales growth.

That part of Harmony's story began in 2009, when the co-op's board and general manager began crafting the expansion to its new 4,500-square-foot retail home, just down the street from its 1,500-square-foot building, a former laundromat. In the previous year, board members had returned from the Cooperative Board Leadership 101 training, where the quintessential Lego model of its finances sparked a big "aha" about how it was time to consider a leap into a new store.

At the time, the board also hired Bill Gessner from CDS Consulting Co-op (CDS CC) to help analyze Harmony's financial capacity with board members and core management staff. During that retreat with Gessner, as the synergy of expansion took hold for both the board and the management staff, the expansion was given the big green 'Go'. Former board member Tony Walzer recalls, "Assuming that debt was a really scary thing. We all gasped when we saw the number that Bill showed us." This realization made everyone aware that a 'Go' for expansion meant there was a lot of hard work to be done."

Throughout all of the excitement, Harmony's board chair at the time, Dennis Montgomery, knew the co-op didn't have a stable enough governing process with which to successfully navigate an expansion. Montgomery remembers, "If you read the minutes from the time before the expansion, one month the conversation was all about the need to lower prices, while the next month would be all about needing to make more money. I kept thinking to myself, 'You can't have it both ways.' There never seemed to be any total goal to the meetings, and the board members tended to act like customers instead of board members. No matter how much we said we wanted an expansion, we couldn't move forward without some structure and process to get us talking about the right things."

Adopting policy governance

As an organization developer and nonprofit director, Montgomery had already experienced the Carver policy governance model. A charter school in Bemidji had recently launched using the Carver model, and his wife, Maggie Montgomery, who served as the general manager of the regional community radio station, was in the process of adopting Carver methods for the station. In order to channel the excitement about Harmony's future expansion, Dennis Montgomery led the board through the necessary and laborious work of educating itself and developing governing policies to better articulate the roles of the board, the ownership, and the general manager in operating Harmony.

As former board member, Mary Chernugal, recalls, "Dennis was the bones of that. He helped us define what the board role was, what the staff role was. Now no one could show up with an axe to grind, either community or staff, because we had our roles defined. The policies kept us on track, kept the focus. Now we could focus on budgeting, on accountability."

By the beginning of 2009, Harmony's board was confident that they understood the big picture and the spirit of policy governance and were poised to implement it. However, the expansion process leapt ahead of itself by about two years when a prime piece of real estate became available downtown. In the midst of the newly accelerated expansion process, the busyness of key expansion decisions and capital fundraising overtook some of the routine monitoring the board likely would have been doing instead.

Learning to monitor

As the new store was opening in the summer of 2011, Montgomery and the then treasurer Mary Overlie were on a consulting phone call with Harmony's CDS CC liaison, Todd Wallace. During that meeting, Montgomery and Overlie expressed concerns about how the expansion was progressing. Wallace said something that became a kind of mantra for the board throughout the next year and half. He counseled, "If you are

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Photo by courtesy Harmony Co-op

seeing red flags, then you're not monitoring"—meaning that if Harmony had solid policy monitoring routines in place, the board would feel more proactive toward their concerns rather than reactive.

From that moment on, board deliberations centered around key policy monitoring questions: How can we better monitor the store's indicators against our stated policies? Is this policy language strong enough? Do we have enough data to find that the policy is in compliance? If we don't have the data we need, what's the plan?

There's a multifaceted story involved in Harmony's recovery that's too detailed to go into here, but it ends like this: Harmony bounced back from those shaky postexpansion woes faster than expected. Now, the co-op exceeds its own internal targets for margins, sales, and profit; Harmony also routinely performs better than similar-sized stores in the region.

It's a tale of a sustained contraction, as staff sacrificed their familiar routines to dig in to the new systems necessary to make Harmony competitive. Product Manager Lisa Weiskopf remembers, "As staff, we knew we were responsible to make this work because of all of the member equity that was going to be on the line." It's a story of sustained cooperation by experts in the co-op movement, who counseled the board and management about the hard, painful work necessary to reconcile the ideals that policy defined for Harmony and the reality of the store's health. It's also a narrative of sustained community investment, as owners continue to reinvest all or portions of their expansion loans back into C stock to grow Harmony's equity.

Overall, the co-op recovered through sustained commitment, by owners, board members, staff, and Harmony's intrepid general manager (GM), Colleen Bakken, to the overall Ends policies that are at the heart of why Harmony exists and to the ancillary policies that serve those Ends.

"One of the biggest shifts I've noticed in my experience as a board member is that I've stopped needing to be hyper-vigilant about 'red flags,' stopped needing to generate new ideas, and am instead delighted about where the Ends are taking us," says Mary Overlie, current Harmony Co-op board chair. "Our GM lives and breathes our Ends policies as the foundation of her decision making and is empowered through our policy structure to bring them to life. We're now going places as an organization my limited volunteer-board perspective could have never envisioned. Our solar-panel project was born from the Ends. Our living-wage strengthening program was born from the Ends. As a board, we now have a well-oiled machine in policy governance.... We have the map and the manual and are really enjoying the ride." ☐

Photo by Circle News Minneapolis

HARMONY WELCOMES OJIBWAY

A recent newspaper column mentions Harmony Co-op several times while highlighting efforts to welcome Native American language, foods, and customers in Northern Minnesota businesses and institutions. See News on CGN website. –Ed.