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Buying Out Your Boss: Worker Cooperatives Are the Future of Small Business

by Scott Beauchamp



The board of the Island Employee Cooperative. (Photo: IECDIS/Facebook)

The recent Market Basket strike—25,000 employees from 71 stores—was characterized by a *Boston Review*- and MIT Sloan-sponsored [roundtable](#) as The Summer of Market Basket. Unlike the summer's other labor dispute to gain notoriety, fast food workers protesting for higher wages, the Market Basket strike seemed like a radical departure from a labor strike's usual goals. Instead of higher pay or better benefits, these workers demanded a new boss. Or, to be more precise, they wanted their old boss back.

At the heart of the Market Basket dispute was an inter-family struggle for control over the chain of low-cost grocery stores. On one side was Arthur T. Demoulas, the longtime CEO beloved by employees for paying livable wages—the *Boston Globe* [reported](#) that a truck driver recently retired with a nest egg of over \$700,000, while two store

managers left as millionaires. On the other side of the struggle, wresting control from Arthur T., was his cousin, Arthur S. Demoulas, who was a bit cozier with shareholders and made no promises to keep his cousin's business model of sharing profits with employees.

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After weeks of strikes that were led mostly by middle management and supported by loyal customers who showed solidarity with the chain's employees by taping grocery receipts from other stores onto the window of their local Market Basket, Arthur S. gave in and agreed to sell the business back to his cousin. The non-union employees of Market Basket, with generous support from their communities, had effectively chosen the leadership of a \$4 billion company. As heartening as the story is, it overshadowed a more radical, albeit smaller, labor development in New England: the creation of the largest worker cooperative in Maine.

WORKER COOPERATIVES ARE ENTITIES that are both owned and managed by employees. And despite more recent associations with institutions that exemplify gentrification, such as the Park Slope Food Coop, cooperatives come from the long tradition of experimental worker democracies linked closely to labor and industrialism. The first truly successful worker cooperatives were based in the cotton mills of New Lanark, Scotland, as the brainchild of socialist thinker Robert Owen. These cooperatives were established in order to “cope with the evils of unbridled capitalism and the insecurities of wage labor,” according to scholars Frank Adams and Gary Hansen.

The early, heady days of the Industrial Revolution were scary times for workers. For one, there was child labor. Work was usually grueling and took place under conditions so dangerous and uncomfortable that they spawned not only the modern labor movement, but the framework for modern society: weekends, sick days, the minimum wage, paid holidays. The battles were hard fought, and, many contend, still continue. Kids might not be dying in coalmines anymore, but even in the best of times, the labor market can be insecure. And this isn't the best of times. Worker insecurity is

onlygrowing. The Middle Class is shrinking. Wages are stagnant. According to some estimates, the mostly rural state of Maine isn't expected to recover the jobs it lost during the 2008 recession until 2016. And with most of the growth that has come to the state occurring in metropolitan Portland, things look particularly stark for rural areas.

Workers in Deer Isle, Maine, a remote island community of 2,000, had all of this to consider when they were told that the family who had owned a string of local businesses for a generation decided to sell. Vernon and Sandra Seile purchased the Stonington Market in the 1970s and eventually went on to build The Gallery grocery store in a neighboring town. They built a hardware store, V & S Variety, in 1995, and then expanded their business to include pharmaceutical services when the island's only pharmacy shuttered in 2003. Most family-owned business don't survive a hand off to the next generation, so when it came time for the Seile's to retire, the employees of their stores were left in a tough spot. Ashley Weed, an employee of the Burnt Cove Market for the past 11 years, told the *Bangor Daily News* that she was worried that a new owner might institute pay cuts. Other employees worried about being fired altogether. So they decided to collectively buy the stores themselves.

"I definitely like the idea [of a cooperative]. I'm happy [the Seiles] actually sold it to us so we don't have to start at the bottom again," Weed said about the decision to form a co-op. But it wasn't necessarily an easy process. Last year, workers and the Seiles family began consultations with the type of organization that's integral to getting cooperatives off the ground. In this case, it was the Cooperative Fund of New England and CEI.*

These types of organizations, known as Community Development Finance Institutions (or CDFIs), do two things: provide loans so that burgeoning cooperatives can purchase their business, and provide managerial and logistic expertise that many workers don't necessarily have by experience, just because most business are structured with a clear worker/manager/owner split. It took over a year to set things up, and not all employees chose to join the cooperative, but in June the purchase was completed. (The Maine-based Independent Retailers Shared Services Cooperative, as well as the out-of-state non-profit Cooperative Development Institute, provided additional support by

helping to design and execute the conversion.) The newly created Island Employee Cooperative, composed of 45 employees, was the new owner of the Seile's chain of businesses.

Most employees were eager to form a co-op, although a few required some coaxing, according to Alan White, the newly elected president of the Island Employee Cooperative. In the end, not all decided to join. But that didn't pose much of a problem. Participation in ownership isn't compulsory, and new employees will get to decide for themselves whether or not they want to become members.

Those who decide they do want to participate will be awarded one share in the business and one vote in deciding management issues. They'll be tasked with the responsibility of electing a board, selecting managers, allocated resources for investment, investing in growth opportunities, or making any big changes in finances. This sort of comprehensive worker control is what separates a cooperative from more modest forms of worker involvement, such as profit sharing. It seems like a lot of work, but co-op members such as White are excited about the responsibility. "We know we have a lot to learn and a lot of work to do to be successful," White told the *Bangor Daily News*, "but success means we will really achieve the American dream—economic security and building wealth through ownership, both for our families and our community."

The creation of the Island Employee Cooperative isn't just significant for its members—it also has historic value as the largest worker cooperative in Maine, and the second largest co-op in New England. According to an op-ed in Truthout, this is, "...the first time that multiple business of this size and scope have been merged and converted into one worker cooperative—making this a particularly groundbreaking achievement in advancing economic democracy."

Groundbreaking, but also rare. There are only two other worker cooperatives in the state of Maine. According to one estimate, co-ops only employ around 5,000 people nationwide in 350 workplaces. One reason for such scant participation in a democratic workplace could be that it's expensive to buy a business. As the creation of the Island Employee Cooperative shows, CDFIs are integral to supplying the loans necessary to make a purchase on that scale. Municipal funding would be nice, but it's hard to come by. New York City recently set

aside \$1.2 million for incubating co-ops, but this sort of municipal engagement is a rarity. And even with the funding issues aside, worker cooperatives aren't perfect. They have to contend with the same problems as any other business: global competition, market volatility, regulatory issues, and changes in government policy that might affect the bottom line.

It's easy to argue that that last criticism goes both ways. A co-op is a business like any other, but when it comes to the bottom line, blurring the divide between workers and management might lead to more stable, humane outcomes for the people who have the most to lose. This populist, hands-on approach to dealing with economic inequality strikes one as inherently lefty—and this is especially true given the historical context from which co-ops sprang. But as Matthew Harwood recently wrote for Al Jazeera, worker cooperatives should appeal to both ends of the political spectrum.

For people on the left, co-ops are a way to correct economic disparity and combat the iniquities of corporatism. For conservatives, endowing workers with more responsibility is inherently character building. But for people like the members of the Island Employee Cooperative, the argument isn't ideological at all. It's simply the most pragmatic way to keep food on the table.

***UPDATE—November 24, 2014:** We originally wrote that the Cooperative Development Institute and the Independent Retailers Shared Services Cooperative are CDFIs. They are not, but did provide support for the design and execution of the conversion. Financing for this project came from the Cooperative Fund of New England and CEI.

