

Stakeholders, Shareholders, and the Meaning of Market Basket:

An Interview with Tom Kochan

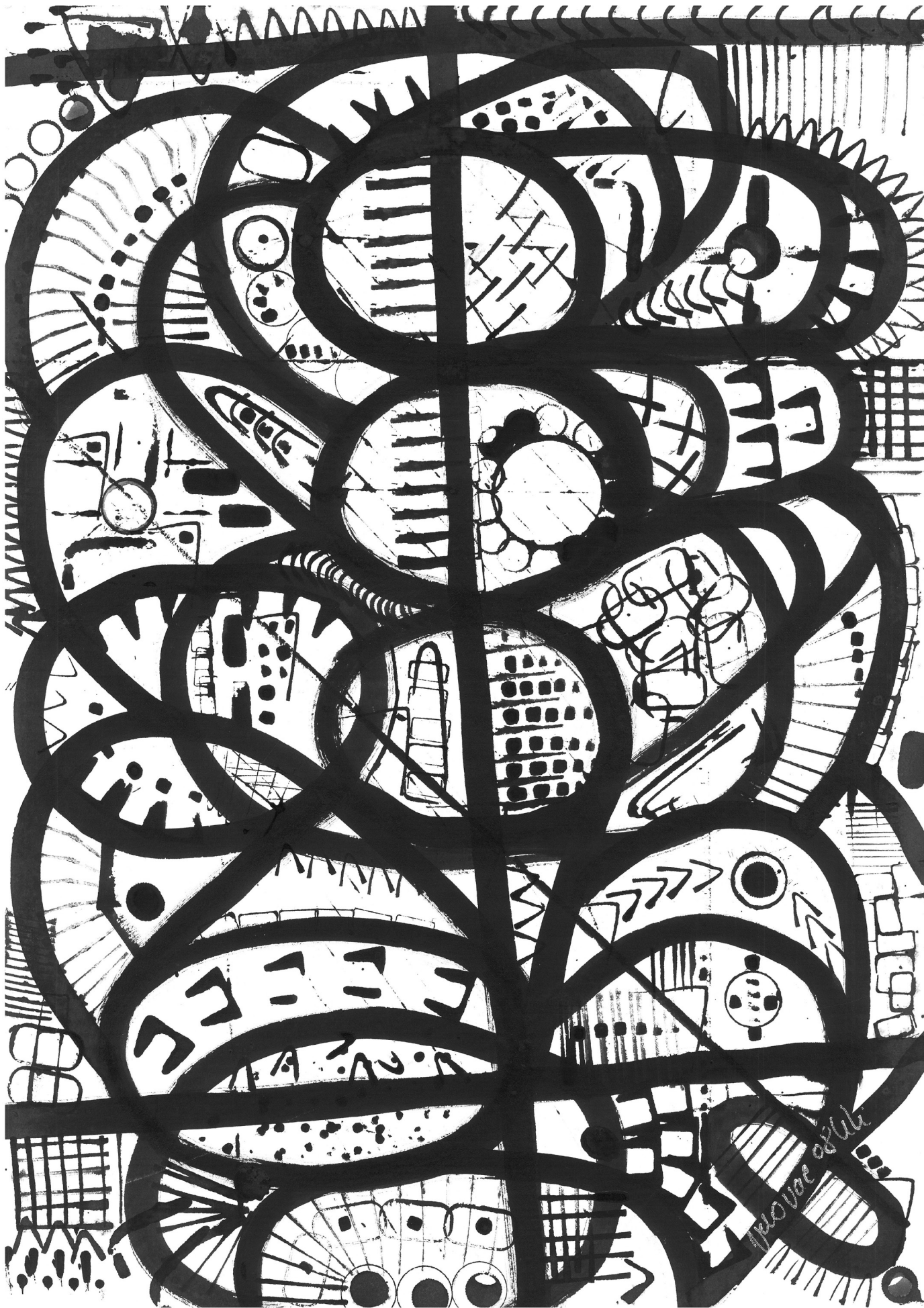
by the editors

The Market Basket protest against the shareholders' decision to oust their CEO is unprecedented—involving, as it did, the full workforce joined by the chain's customers and suppliers. But it is doubtful that this will be the last we see of this kind of action. It demonstrates an abiding concern in American society about inequality, bolstered by the development of social media and organizational transparency.

Editors' note: *Market Basket was a \$3 billion grocery chain in New England when, in July 2014, CEO Arthur T. Demoulas was ousted as the result of a family feud. One might have expected the story to end there. But, under Demoulas, Market Basket had paid its workers a fair salary and provided good product at low prices, and apparently its stakeholders had a sense of a shared future together: in an unusual demonstration of solidarity, they rose in protest. On August 27, after a six-week stalemate during which Massachusetts Governor Deval Patrick and New Hampshire Governor Maggie Hassan were moved to aid in the negotiations, a deal allowing Demoulas to buy out the rival family members' shares was ratified. The ousted CEO was reinstated—as were eight supervisors who had been fired for orchestrating the revolt and the thousands of employees who had taken part in it. Tom Kochan, codirector of the MIT Sloan Institute for Work and Employment Research at the MIT Sloan School of Management, believes that Market Basket is something of an indicator of things to come, as he explains in the following interview with the Nonprofit Quarterly.*

Nonprofit Quarterly: *Tom, we have talked previously about the larger implications of the stakeholder action around Market Basket and the potential impact of it. Can you talk about why you find it so notable with respect to your tracking of business trends?*

Tom Kochan: Well, it really is an unprecedented dispute, involving the full workforce of a business—that is, executives, store managers, clerks, warehouse workers . . . the full cross section—against the firing of their CEO and disruption of the business model that made the



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business so successful, built a loyal customer base over the years, and provided good jobs. So it’s not a traditional labor-management situation where hourly workers are on strike or in a dispute with upper management. This is the full workforce saying there’s something fundamentally wrong when owners try to extract more of the profits from an organization and threaten the business’s continuity.

NPQ: *And the customers have also gotten involved in this. Have you ever seen a situation in which the workforce and customers are so united in this kind of action?*

TK: That’s another dimension to the story. It is quite unusual to have this broad base of loyal customers standing side by side with the workforce. They are absorbing higher costs by having to shop at more expensive stores. Some of them have limited transportation options, so it’s very problematic for customers. Yet they, too, value the long history of quality service and low prices that Market Basket is known for. This kind of action is not unprecedented, but it’s much more vivid and widespread in this case. You’d probably have to go as far back as the 1997 strike of UPS truck drivers, who built a coalition with their customers. Their customers didn’t boycott UPS, but they supported the drivers because they had a personal relationship with them. They got to know them as individuals, and they cared about them, and they related to the issue, too—because the UPS drivers were striking in part to preserve their pensions but also to gain job security, more options for full-time work, and fair salaries during a time in which American workers nationwide were struggling.

NPQ: *This relates to what’s been termed the “stakeholder/shareholder debate”—can you explain what that means?*

TK: Well, I think that over the last thirty years we’ve seen a strong trend in business education and business practice toward focusing on maximizing shareholder value as the purpose of the firm. In the past there had been more of a sense that the job of management was to balance the interests of multiple stakeholders—owners, to

be sure, but also employees and customers and suppliers, and maybe even the communities in which the business was located. That shifted in the 1980s, with leveraged buyouts and hostile takeovers and everything that followed in the wake of that movement. Since then, too many academics and business leaders bought into the notion that the corporation was solely an instrument for maximizing shareholder value. That, I think, is being challenged directly in the case of Market Basket, and I think the fact that it resonated so well with the public—with workers around the country—demonstrates that the protesters have struck a chord and that other people are equally fed up with the inequality in society, and attribute some of that to the greed of business owners or shareholders.

NPQ: *So do you see this as a rebalancing?*

TK: That’s what I think this represents. Clearly this is an idiosyncratic set of circumstances that led to the protest by employees; but it symbolizes this larger concern in society and has garnered widespread support from the public, the community members, and the vendors, who are suffering from the loss of business, as well as from the politicians, who intuit what this really might symbolize. So I think it does reflect a deeper concern and maybe even unrest in American society. It doesn’t mean that everybody is going to go out and do the same thing. Again, this is an unusual set of circumstances. But I do think others can relate to what these employees are doing, and they’re cheering them on.

NPQ: *You have mentioned seeing somewhat similar situations in China. Can you talk about that?*

TK: Well, in China they don’t have independent trade unions. The unions that exist are controlled by the Communist Party, and they’re an arm of the state, basically, so they’re more a control mechanism than representative of the workforce. But as more private enterprise grows in China, Chinese workers are getting fed up with their low wages and poor working conditions, and the situation has led to a large number of spontaneous protests. The workers use social media, cell phones,

and so on to tell each other that they're going to go on strike and to describe the specific situation or event that is triggering the strike, and organize themselves outside of the formal structure into a spontaneous kind of activity that is very unpredictable. So I think in that respect there are some similarities.

NPQ: *Is the technological environment feeding some of that spontaneity between stakeholder groups?*

TK: The development of social media has certainly helped, as have the ability to communicate and the transparency that I think workers now see in organizations. When they saw Market Basket shift their CEO from Arthur T. Demoulas to co-CEOs brought in by the rival faction in the company, and saw the family seeking to get more cash out of the company, they understood that the business model was going to change, the quality of their jobs might suffer in the future, the business was likely to be sold to some outside buyer—and all that they had worked to help achieve was at risk. So, the understanding and observation of that, along with a Facebook page and other social media, facilitated the employees' taking action.

NPQ: *If one were to say we might be looking at a possible era shift here, what would it be?*

TK: Well, it's too early to tell what this means, but I do think it's going to be a wake-up call to executives, to members of boards of directors. I believe there will be conversations in boardrooms, where people will ask, "What does this mean to us? Are we being fair to the workforce?" It's going to lead to more discussion in universities and business schools, where people will be asking questions like, "What does this mean?" and "What about that business model that seems to work so well for all these different stakeholders? Are we teaching enough about that?" The answer to the last is no—and maybe it will lead to some reconsideration of what's being taught. And I do think that it's going to lead workers and trade union leaders to say, "How can we build on the momentum of this case, and how can we tap into the latent unrest and frustrations that it seems to reflect?" So if

this is the beginning of something new or something different, then I think it will take a variety of different forms, because we're not going to see this particular type of protest replicated in large numbers. But I do think it will lead to more coalitions between workers and customers and community members using social media and using an issue that the broad coalition can relate to and see as compatible with their own sense of fairness. That, I think, is what might happen here, and we'll just have to wait and see.

NPQ: *The Metropolitan Opera was negotiating with fifteen or sixteen different unions, and there was a lockout threat, among other issues. But in the final agreement, which has not yet been ratified between the major unions and the Met, one of the clauses requires that there be an independent financial monitor and that both sides get financial information to work with. Is that unusual?*

TK: It's not unusual for good employers to share financial data with workers—and with unions, for that matter, especially around negotiations; but to build that into the agreement and to have an independent or mutually acceptable set of experts provide that information is unusual. I've seen good labor-management relations, where the information is shared, and that really helps to build some trust. And then in negotiations, teams of union and management people will often work with a set of experts they choose jointly to study a particular issue—maybe a complicated issue around pensions or healthcare or profit sharing or whatever. So what the Met and the unions are doing is, I think, unique. But again, I think it's a reflection of the transparent world we're in now. People understand. People are smart about business. They've learned about how the strategies in marketing and other financial activities and efforts of the firm relate to the jobs and welfare of the workforce, and they just want to make sure that management is being held accountable for managing in a fair way.

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