Print ISSN: 2234-3040 / Online ISSN: 2234-3059
doi: 10.13106/eajbm.2014.vol5.no1.37.

[Field Research]

# Creating Profits with Nonunion Workers: A Case Study of Market Basket

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Received: November 05, 2014. Revised: November 18, 2014. Accepted: January 15, 2015.

## Abstract

**Purpose -** The study was designed to explore and examine the business relationships of the owners and the employees of Market Basket to analyze the implications of their recent turbulence and decisions. This article focused on two issues - business profit and labor union - to describe the uniqueness of this case.

**Design, methodology, data, and approach –** This article, based on its purpose, applied all three approaches of case studies that are identified and described by Stake (1995), instrumental, intrinsic, and collective, to present the core nature of the issue and to improve and gain a clear understanding of this particular phenomenon.

**Results –** The analysis of this case clearly indicates that seemingly dichotomous concepts of profit and employee welfare are not necessarily antithetical to each other

**Conclusions –** The instant case of Market Basket serves as a testimonial for the rejection of the basic premises of corporate profits and labor unions. This case serves as a model and a practical example for many large retailers, especially the family operated retailers, and workers throughout the world.

**Keywords:** Market Basket, Nonunion Workers, Strike, Boycott.

**JEL Classifications:** J30, J50, K20.

## 1. Introduction

The non-union and many anti-union employees of Market Basket (Nickisch, 2014) in the summer of 2014united and organized employee walkouts and customer boycotts, bringing the multi billion dollar business to a virtual standstill during the 6 week standoff (Ross, 2014). Significantly, this unprecedented, historical action taken by non-unionized employees, that paralyzed the company's operations and left many employees without jobs or income for over a month, was not for more employee rights or benefits. The workers were willing to risk their jobs just to bring back their former president and CEO, Arthur T., who was fired in June of 2014.

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## 2. Background

Reportedly generating $4.6 billion in revenue, DeMoulasSuper Markets, Inc., commonly known as Market Basket, is one of the oldest family-owned businesses in the U.S., currently with 71 supermarkets and 25,000 employees across Massachusetts, Maine, and New Hampshire (Horowitz, 2014).

**<Table 1>** Background of Market Basket

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|---|---|
| 1916 | Athanasios ("Arthur") Demoulas opens neighborhood grocery store in Lowell, Massachusetts. |
| 1954 | Arthur Demoulas sells the store to two of his sons, Telemachus and George |
| 1971 | George dies of heart attack |
| 1990 | Lawsuit is filed against Telemachus by George's heirs, alleging Telemachus had defrauded them out of all but 8% of the company stock |
| 1994 | Court rules in favor of George's heirs, giving them controlling share - 51% of the company |
| 2003 | Telemachus dies. |
| 2008 | Arthur T. becomes president of Market Basket |
| 2009 Jan | MB pays $46 m into the employee profit-sharing plan to replace the money lost on the Fannie and Freddie investments. |
| 2009 April | Arthur S side files lawsuit about the Fannie and Freddie investments |
| 2013 June | Court rules in favor of Arthur S' side allowing full recovery of the plan for its $46m loss; Rafaela Evans, owner of 4% of MB shares, switches her allegiance from Arthur T to Arthur S. |
| 2013 July | Arthur S. mentions future plans to fire Arthur T; "Save the MB" Facebook page is created |
| 2013 Sept | Court allows MB to distribute $300m to shareholders as a dividend bonus; "We are Market Basket" website is |

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|---|---|
| | created with a post of a deposition given by an employee relating Arthur S'visit and mention of future plans to fire Arthur T |
| 2014 June 23 | Dismissal of Arthur T. as the president |
| 2014 June 25 | 7 executives of Market Basket quit their jobs in protest of the firing of Arthur T. |
| 2014 July 13 | Employees at Burlington MB hand out "We are Market Basket and we need your help" pamphlets to shoppers |
| 2014 July 15 | Employees at Tewkesbury Market Basket demand that Arthur T. be rehired |
| 2014 July 18 | "We are Market Basket" organizes its first rally to bring back Arthur T. |
| 2014 July 20 | The board of directors of Market Basket confirms that it has fired some employees |
| 2014 July 21 | Arthur T releases first statement since being fired and asks that MB reinstate the fired employees |
| 2014 July 23 | Arthur T's side announces that they are willing to buy the other half of the company from Arthur S side of the family |
| 2014 July 25 | Employees hold a 3rdrally in Tewkesbury |
| 2014 July 30 | MB's new CEOs announce that the boycotting MB employees need to return to work by Monday, August 4th |
| 2014 Aug 1 | 8 terminated employees announce that they will be filing a lawsuit against MB for wrongful termination for speaking out for the right to organize |
| 2014 Aug 4 | MB holds a job fair for potential job applicants |
| 2014 Aug 5 | Employees and protesters hold a 4th rally in Tewkesbury |
| 2014 Aug 7 | Massachusetts attorney general creates a hotline for MB employees |
| 2014 Aug 8 | Massachusetts Governor Deval Patrick urges the board to find a prompt resolution stating, "[Y]our failure to resolve this matter is not only hurting the company's brand and business, but also many innocent and relatively powerless workers whose livelihoods depend on you." |
| 2014 Aug 14 | Massachusetts Governor Patrick relates his intervention, stating that a deal is in the works between the board and Arthur T. and calls on the Market Basket workers to go back to work. |
| 2014 Aug 27 | Arthur T. and Arthur S. reach an agreement for Arthur T. to purchase the majority share from Arthur S. |
| 2014 Aug 28 | Boycotting Market Basket employees return to work. |

The company's humble beginning can be traced back to 1916, when Greek immigrants Athanasios and EfrosiniDemoulas opened a grocery store in Lowell, Massachusetts. In 1954, the family patriarch sold the business to his 2 sons, Telemachus and George, who had worked for the family business. Telemachus and George then turned their mom-and-pop store into a supermarket chain of 15 stores until George died of a heart attack in 1971. Telemachus became the sole manager of the Market Basket chain (MyDemoulas, 2012).

From 1990, lawsuits were filed by George's family, represented by George's son Arthur S.,alleging, among others, that Telemachus and his family defrauded them of company shares and opportunity, to which the jury found Telemachus liable for fraud, conversion, and breach of fiduciary duties with respect to stocks belonging to George's family, resulting in the increase of proportion of stocks for Telemachus and his family to 92% (Demoulas v. Demoulas Super Mkts., Inc., 1997). The Court ordered a return of 43% of the company stock to George's heirs (Laska & Pfafenbach, 2000), the sum of which then calculatedto a controlling share of 50.5% for George's family (Welker, 2014).

Despite the win, however, George's heirs failed to take charge of management of Market Basket due to years of appeal, and even as Telemachus finally resigned in 1999 per Court order, their internal family squabble led to Arthur T., Telemachus' son, to remain in control of the management of the company. RafaeleDemoulas Evans, the widow of Arthur S's brother and owner of just above 4% of the company stock (Welker, 2014), was apparently upset by the way her husband's estate was handled by her brother-in-law and voted with Arthur T. (Leung, 2014), giving Arthur T. a majority vote on the Board of Directors. In 2008, Arthur T. became the CEO and president of the company (Borchers, 2014).

In the meantime, under Arthur T.'s management, "sales grew from just under \$3 billion a year to more than 4 billion . . . The number of employees grew from 14,000 to what is now a reported 25,000" (Welker, 2014, p. 3). He kept the employee profit-sharing program, and one of his first order of business in January of 2009 as the newly elected CEO was to pay \$46 million of Market Basket's own money into the employee profit-sharing plan to replace the money lost on the Fannie and Freddie investments (Kasperkevic, 2014). In response, however, Arthur S.'s side filed lawsuit in April of 2009 to recover the \$46 million. In June of 2013, Court ruled in favor of Arthur S's side and allowed full recovery of the funds. That same month, in June of 2013, Rafaele Evans switched sides (Kasperkevic, 2014), voting with Arthur S. This allowed Arthur S. to finally take full control of the company and eventually oust Arthur T. (Horowitz, 2014). Seeing the writing on the wall, the employees of Market Basket in July of 2013 created "Save the Market Basket" Facebook page (Kasperkevic, 2014).

Before firing Arthur T., however, one of the first order of business for the board under Arthur S. in August of 2013 was to approve, against Arthur T.'s strong objections, a disbursement of \$300 million special dividend for its family shareholders and to replace 2 of the 3 trustees for the employee profit-sharing plan (Welker, 2014). In September of 2013, the employees of Market Basket created "We Are Market Basket" website posting a deposition given by an employee relating Arthur S's visit and the mention of future plans to fire Arthur T. After more lawsuits and the Court order for 2 directors on Arthur T's side to end the boycott and attend the board meeting, Arthur T. was fired on June 23, 2014 (Kasperkevic, 2014). Along with him, 2 other executives were also fired (Welker, 2014), and within days, on

June 25, 2014, seven executives quit in protest (Kasperkevic. 2014). On or about July 20, 2014, with the first employee rally to bring back Arthur T. on the background, eight employee organizers of protests were fired (Borchers, 2014) because of what the chain's new co-CEOs called "significant actions that harmed the company and therefore compromised Market Basket's ability to be there for our customers" (Welker, 2014, p. 1).

Undaunted, the employees of Market Basket continued to boycott, protest, and hold rallies to bring back Arthur T., who announced on July 23, 2014, that his side of the family is willing to buy the other half of the company from Arthur S.'s side of the family (Kasperkevic, 2014) and by August 14, 2014, forced governors of Massachusetts and New Hampshire to intervene. On August 27, 2014,Arthur T. and Arthur S's management reached an agreement for Arthur T's side of the family to purchase the controlling shares of Arthur S's side for $1.5 billion and return "immediately to 'operational authority,'along with his management team" (Nickisch & Swasey, 2014, p. 1). Immediately, the employees of Market Basket returned to work to restart the 71 Market Basket stores back into operation (Ross, 2014).

## 3. Discussion

Up to now, employees' willingness not only to fight for but to give up their jobs for their company's CEO had been unheard of. Risking their jobs, the Market Basket workers not only managed to get their fired CEO back but forced the majority shareholders to give up their shares as well. These goal-oriented actions and success of the employees that were accomplished without a union merit an exploration of the reasons and the methods behind them:

### 3.1. Profit vs. Employees

The unprecedented actions of Market Basket employees stem out of their loyalty to Arthur T., whose business model and philosophyis to "treat employees right, make them passionate about what they do, and watch your bottom line grow" (Leung, 2014, p.1). Said to remember the names of every one of his 25,000 employees (Gittleson, 2014), their birthdays, and milestones of even low-level employees (Borchers, 2014), Arthur T. equated success and profitability of his business to the well-being of his employees, and unlike other major companies such as Walmart, Arthur T. recognized that the people were the key to his company's success (Leun, 2014).

Arthur T. was brought up in the family business, at the feet of his father Telemachus Demoulas, from bottom up, learning how to check produce to growing the company (Leung,2014). He is seen by the employees as a father figure and the company as a family (Borchers, 2014). The impression one gets from the employees of Market Basket is that Arthur T. has attended every wedding and every funeral of the employees and their familiesin the Boston Area for the past 15 years (Gittleson, 2014). The employees believe that Arthur T. puts them before the shareholders, even fighting his relatives "to preserve strong wages, bonuses, and a retirement plan, while keeping prices low for customers" (Borchers, 2014, p. 1) – an average of about 20% lower, according to one study (Gittleson,2014). In fact, the starting wage at Market Basket is well above minimum wage at $12 per hour with an employee profit-sharing plan and benefits, including healthcare and paid sick leave, which are given to everyone (Gittleson, 2014).

Placing people over profits, Arthur T. won the affection of his workers who seem to have proved their loyalty to him. At the same time, actions taken by the board under Arthur S. presented a perceived threat to strong employee benefits and low prices thought by employees and customers. While Arthur T. sought to reinvest the company's profits back into Market Basket and its employees by opening more stores and paying bonuses to workers, Arthur S. sought to distribute higher dividends to his family shareholders. While Arthur T. sought to give employees up to $40 million in bonuses (Ross, 2014), Arthur S. not only opposed that proposal but filed a lawsuit for the return of $46 million that was already paid to make up the losses for the employee profit sharing plan. While doing so, Arthur S. disbursed $300 million in special dividend after having "received more than $500 million after taxes in dividends in the preceding 12 years" (Welker, 2014, p. 1). While Arthur T. recognized, in his own words,"Without [our employees], this place will go down the tubes quicker than you can say hi-ho" (Ross, 2014, p. 1), Arthur S. was perceived by the employees as placing more importance on "cash" than people, "taking more than their fair share, choosing profits over building businesses" (Gittleson, 2014, p. 1).

Market Basket illustrates that seemingly dichotomous concepts of profit and employee welfare are not necessarily antithetical to each other. In fact, Market Basket serves as an example of the congruency of the investment in employee welfare with the increase in profit, silencing any argument that employee welfare negates the profit margin of businesses. More than that, the events which have unfolded in the Market Basket saga show the power of the employees and their loyalty that transcend any conventional notion of employee-CEO/business relationship.

### 3.2. Union vs. Non-Union

Labor unions became prevalent in the U.S. during the late 19th century with the purpose of providing collective strength of the organized group of workers to have their voice heard in the workplace. The unions collectively negotiate work-related issues such as employee wages, benefits, work hours, and health and safety. While union membership and influence have had tremendous growth since then, there has been a steady decline for the past 40 years (Jackson, 2012). The percentage of workers belonging to unions from the high of over 35% during the 1940s has decreased to about 13% today, and only about 9% of employees in the private sector belong to unions (Workplace Fairness, 2014).

The employees of Market Basket are not unionized, with some being even anti-union (Nickisch, 2014). Given Arthur T.'s business philosophy of Market Basket, perhaps the employees did not see a need for a union. However, seeing the writing on the wall with the loss of their CEO, the employees of Market Basket came together, their unity and organized activitiessurpassing any coordinated efforts of a union. What distinguishes the success of Market Basket workers from the activities of unions is the Market Basket employees' willingness to have everything - even their jobs – on the line, and there was no division of hierarchy in this sentiment. With the dismissal of Arthur T. on June 23, 2014, seven executives of Market Basket quit their jobs that same month in protest, and within weeks, the employees started handing out "We are Market Basket and we need your help" pamphlets to the shoppers and organized their "We are Market Basket" rallies to demand the return of Arthur T.

By August, despite threats of termination of their jobs, they continued to boycott, protest, and hold rallies, forcing not only the business to a standstill but also the governors of Massachusetts and New Hampshire to intervene. Despite calls by the governors fo rthe Market Basket workers to go back to work, it is only after Arthur T. secured an agreement to purchase the majority share of Market Basket from Arthur S. that the employees immediately returned to work. Within a time period of 2 months, the employees of Market Basket accomplished a feat that unions can only dream of and envy.

## 4. Conclusions

The instant case of Market Basket serves as a testimonial for the rejection of the basic premises of corporate profits and labor unions. The fundamental concepts of corporate profits and labor unions suggest, respectively, that corporate profits increase at the workers' expense and that workers' issues cannot be represented without a union. This case entirely disproves both concepts and shows other ways to develop and maintain profitable relationship between businesses and their employees, that is, corporations, a multibillion dollar retailer in this case, can make and increase their profits without the expense of their workers and that workers do not have to be unionized to voice their opinions or represent their rights. This case serves as a model and a practical example for many large retailers, especially the family operated retailers, and workers throughout the world and demonstrates that social and organizational justice can prevail if businesses and workers take care of each other.

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