Worker ownership an alternative to selling businesses to outside investors

Story and photos by Jordan Bailey | Oct 23, 2014

Rob Brown, of Northport, discusses worker ownership at Belfast Free Library.

Jonah Fertig of Arundel.

Belfast — With the successful transition of a grocery, pharmacy and hardware retail store to worker ownership in Stonington, and three large, well-known Maine businesses potentially converting to worker-ownership within a year, worker-owned cooperatives are gaining popularity in Maine as a way to keep businesses viable after their owners retire or decide to sell.

An audience of 21 learned about the benefits of worker ownership from two Maine experts at a meeting at Belfast Free Library Oct. 13, hosted by the Belfast Coop, a consumer-owned cooperative.

Rob Brown of Northport directs the Business Ownership Solutions program for the Cooperative Development Institute, a nonprofit with 12 staff members across New York and New England that helps small businesses in Maine convert to worker-owned cooperatives.

Jonah Fertig of Arundel began the worker-owned cooperative Local Sprouts Cafe in Portland, and now coordinates Cooperative Fermentation, a collaboration between the Resilience Hub and CDI, which helps create worker and producer cooperatives in the Maine food system.

At the presentation titled "Building a Resilient Local Economy through Worker Cooperatives," Brown said that with small independents making up 97 percent of Maine businesses, half of those owners expecting to retire within the decade, and half of those lacking succession plans, worker ownership can be a way to keep those businesses viable long-term.

He said he is consulting with three large Maine businesses, which he declined to name, whose owners are seriously considering converting to worker ownership.

In conventional businesses, the owner or owners elect a board of directors — who may or may not be members of the community or residents of the state — who make decisions about the business that affect the employees and community.

In a worker-owned cooperative, each worker buys one share in the company and has one vote. Any surplus, or the money the business makes after expenses, is distributed among the workers. Depending on the size of the business, decisions can be made directly by the workers or by a board of directors elected from the member-owners.

Often if an outside investor buys a business, he might have to outsource work or lay off employees to recoup his investment. But when workers buy a business, "the logic is turned upside down," said Brown. The new incentive structure, he said, is to keep the business robust and to preserve and create jobs, wages and community institutions.

One audience member quoted Richard Wolff, professor emeritus of economics at the University of Massachusetts and author of "Democracy at Work," who said worker owners would not choose to close a business and move operations overseas.

Describing the process of converting to employee ownership, Brown said a group of workers would form a cooperative steering committee to research the details, compare other cooperatives' articles of incorporation and bylaws, and educate the rest of the workers about the options.

If the workers decide they would like to go forward with employee ownership, they can incorporate as a legal entity that can begin negotiations and sign a purchase and sale agreement. At that point, they can go to lenders and financiers for support. Costs would include obtaining a business valuation, engineers' fees for any building inspections, and each employee's share of the purchase price.

There are some innovative ways cooperatives can access capital, Brown said.

For example, workers at Stonington Island Employees Cooperative were able to purchase the businesses and became the largest worker-owned cooperative in the state through bank participation. The bank agreed to lend them the $350,000 needed at the sale closing, contingent upon workers agreeing to have $50 of their share price deducted from their paychecks every two weeks for five years.

Brown suggested other options. Existing cooperatives could pool money into a fund that would provide seed money to start new cooperatives. Legislation could be introduced to allow the state to guarantee loans to businesses that sell to employees, and pre-development grants or loans could be provided by the state.

Municipalities could also provide economic incentives or funding to cooperatives. In June, New York City dedicated $1.2 million of its budget to funding the development of cooperatives in the city.

Doing so would make good economic sense for a community, Brown said, because local control keeps businesses in the community, its profits are spread out among people who live in the community, and those profits are recirculated within the community.

After giving a presentation on successful worker-owned cooperatives throughout the country and indigenous communities in Canada, Jonah Fertig led a brainstorming session about needs in the community that could be filled by worker-owned cooperatives. Audience members suggested bakeries, food hubs, housing, and green-cleaning, taxi and aging-in-place services.