

PART VI

NATIONAL CASE  
STUDIES



## CHAPTER 19

# THE MONDRAGÓN EXPERIENCE

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## 19.1 INTRODUCTION

THE Basque town of Mondragón has given its name to one of the most significant experiences in co-operative organization and workers' self-management anywhere in the world. Founded in the 1950s, the Mondragón co-operative movement began with the establishment of a vocational training program and quickly expanded through the creation of a handful of industrial firms. Since then, the Mondragón network of co-operatives has continuously expanded, in terms of the number of firms it includes and of the range and scope of the economic activities it encompasses. Today, the co-operative group comprises over 100 firms employing more than 74,000 workers and generating €12.5 billion in annual revenue (Mondragón 2015). It includes a wide variety of co-operative firms—from tiny enterprises with a handful of members to large industrial companies employing thousands of workers around the world—alongside a series of supporting and auxiliary organizations. Incarnating a tenacious commitment to the dignity of the individual worker and the sovereignty of labour, Mondragón represents an object lesson in the potential and predicament of a co-operative experience in constant adaptation to the conditions and constraints of an increasingly globalized market economy.

We begin the chapter by describing the local historical context in which the first Mondragón co-operatives were launched, as well as the values that animated their founding. Next we will describe the organizational architecture of the Mondragón system at the level of the individual co-operative firm and of the co-ordinating corporation or group. We will then analyse the rapid expansion and internationalization experienced by some of the largest Mondragón co-operatives since the 1990s, and the impact of this process on the equilibrium between co-operative and capitalist principles in the organization of production. Finally, we will discuss the impact of the current economic crisis on the Mondragón group, and on the operation of its unique system of inter-co-operative

solidarity. We will conclude by reflecting on the future prospects for this long-lasting and far-reaching experiment in workers' ownership and democratic self-governance.

## 19.2 CONTEXT AND FOUNDING VALUES

In the 1940s, Spain was a country traumatized by the sequels of a terrible civil war, living in poverty under a harsh dictatorship, and forcibly isolated from the rest of the world. Political associations and trade unions were banned (with the exception of the state-sanctioned 'vertical syndicate'), and civil society was subjected to extensive police surveillance. In the Basque provinces, General Franco's regime adopted an even more coercive profile, with an active policy of repression against any expression of Basque identity and autonomous social organization.

It was in this context that the seeds of the Mondragón co-operative movement were planted. The driving force was a young priest, José María Arizmendiarieta, who arrived in the town in 1941 after completing his studies at the diocesan seminary of Vitoria, at the time a leading centre of social Catholic thought in Spain (Lannon 1979; Molina and Miguez). Like other nearby towns in the valleys of Gipuzkoa, Mondragón combined an industrial tradition—centered since the turn of the twentieth century around the company Unión Cerrajera and its Apprentice School—with deep cultural ties to its rural hinterland. Arizmendiarieta would draw on this particular blend of communitarian values and economic entrepreneurialism to instigate the creation of a series of co-operative ventures to provide the youth of the region with improved education and employment (Molina 2005).

Intellectually, Arizmendiarieta borrowed his philosophical and organizational principles from a series of ideological currents of the time. Paramount among them was the social doctrine of the Catholic Church, which, since Pope Leo XIII's 1891 encyclical *Rerum Novarum*, had asserted the dignity of labour and the right of workers to organize. To this doctrinal bedrock Arizmendiarieta added the influence of French 'personalist' thinkers (Jacques Maritain and Emmanuel Munier in particular), and his own familiarity with Basque traditions of communal organization, especially those that had flourished around the town of Eibar, a significant manufacturing centre and hub of socialist activism throughout the period leading up to the Civil War, and the preference for co-operative forms of organisation that had characterized Basque nationalist unions in the 1920s and 1930s (Azurmendi 1984; Olabarri 1985; Zelaia 1997).

Arizmendiarieta's initial efforts were focused on the establishment or renewal of local educational institutions. In 1943 he led the creation of a technical training school (*Escuela Profesional*), and in 1948 he inspired the establishment of a local cultural and educational association (*Liga de Educación y Cultura*). These activities culminated in 1952 with the opening of a new and expanded technical training school. Educational initiatives soon spilled over into industrial enterprises. In 1956, a group of employees of Unión Cerrajera and former students of the *Escuela Profesional* created the first industrial

co-operative: Talleres Ulgor (later Fagor Electrodomésticos), dedicated to the fabrication of heaters and gas stoves. Over the following decade, a growing number of co-operatives began to be established around Mondragón and nearby towns: Arrasate (1957), Urssa (1961), Lana (1962), and Ederlan (1963) were some of these initial ventures, often the result of spinning off product lines from already existing co-operatives (Ormaetxea 1998).

The movement soon diversified beyond its manufacturing origins. Critical stepping stones in the growth of what would eventually become the Mondragón Co-operative Group were the creation in 1958 of a system of social provision (now known as *Lagun-Aro*), the founding in 1959 of a co-operative savings bank and credit institution (*Caja Laboral Popular*), and the establishment in 1965 of the ULARCO group, a first attempt to co-ordinate the activities of individual firms and create mechanisms of inter-co-operative solidarity (Altuna and Urteaga 2014). The consumer co-operative Eroski was established in 1969, and would eventually become the largest firm of the group by number of employees. Beginning in 1970, co-operatives dedicated to applied research, such as Ikerlan, or professional services, such as LKS, were created to assist with the R&D needs of the industrial firms. The educational and training infrastructure continued to grow alongside the rest of the Group. A new polytechnic school was founded in 1962, and in 1997 the different initiatives in higher education were merged to create the University of Mondragón.

While deeply imbued with the ethical and organizational vision of Arizmendiarieta, the early experiences in co-operative life did not follow a preordained plan, not even a specific managerial philosophy. They expressed, first and foremost, a form of *practice*—the practice of establishing and sustaining entrepreneurial activities that sought to do justice to a holistic view of the worker as person, and relied on a robust model of collective self-governance. One of Arizmendiarieta's best-known maxims was that 'the only good idea or word is that which can be turned into action', and the Mondragón experience is best understood as an ongoing experiment in co-operative work and management, rather than the result of any pre-existent programmatic formulation (cf. Gupta 2014).

In fact, it was only in 1987, after several decades of co-operative experience and long after Arizmendiarieta's death in 1976, that the Mondragón movement began to codify its own philosophy. That year the first Co-operative Congress adopted the ten 'basic principles' guiding the Mondragón co-operative experience. These were (based on Ormaetxea 1991 and 1994):

1. Free Membership (*Libre Adhesión*): there are no barriers to membership for those who want to be part of the Mondragón experience, provided they respect its basic principles;
2. Democratic organization: equality of worker-members (*socios cooperativistas*) expressed in the election of the co-operative's representative bodies (one *socio*, one vote);
3. Sovereignty of labour: labour (*trabajo*) is the transformative factor in society and in human beings and is therefore the basis for the distribution of wealth;
4. The instrumental and subordinated character of capital: capital is an instrument, and should be subordinated to labour;

5. Self-management: worker–members should be provided with opportunities and mechanisms to participate in the management of the firm;
6. Pay solidarity: a fair and equitable return for labour;
7. Inter-co-operation: a commitment to co-operation among different co-operative firms;
8. Social transformation: a commitment to transform society by pursuing a future of liberty, justice, and solidarity;
9. Universalism: the Mondragón experience is part of the broader search for peace, justice, and development of the international co-operative movement;
10. Education: a commitment to dedicate the necessary human and economic resources to co-operative education.

These ten principles have been enshrined as the movement's founding values, a distillation of Arizmendiarieta's original vision. Their value as a description of the actual *ethos* of the tens of thousands of *socios* that compose the Mondragón co-operatives is, of course, a more complicated matter. In a recent study of how grass-roots worker–members interpret these principles, Heras-Saizarbitoria (2014) found a significant gap between the ideals expressed in this declaration and the day-to-day reality of co-operative life. Worker–members, Heras-Saizarbitoria argues, 'predominantly view [the principles] as part of the organization's *rhetoric*, as a representation of the formal macro-organization that is Mondragón—mainly of the Corporation, rather than their original co-operative. This is *talk* that is detached from daily decision-making and actions' (Heras-Saizarbitoria 2014: 656; emphasis in original; see also Taylor (1994) for an account of how the rhetoric of 'efficiency' has impacted democratic decision-making in the Mondragón cooperatives).

This cleavage between ideals and everyday organizational life has a strong generational dimension: while the founding generation saw these ten principles as the enunciation of a lived experience of co-operative life, younger cohorts of worker–members increasingly treat them as part of Mondragón's corporate self-presentation. 'Worker-owners' commitment to the cooperatives and to cooperativism is still fairly strong,' Cheney wrote in 1999, 'but it appears to be declining, especially for new *socios* and for some segments of the veteran work force as well' (Cheney 2002: 126–7). Before we get ahead of ourselves, however, let us take a closer look at the organizational architecture of Mondragón, and at some of the co-operative group's most significant transformations over the last three decades.

### 19.3 ORGANIZATIONAL STRUCTURE

As we mentioned earlier, the evolution of the Mondragón co-operative movement has not followed a preordained plan and does not reflect a fixed managerial philosophy. Organizational structures have evolved and adapted to changing economic

circumstances as the number of co-operatives grew and the range of their activities expanded. By the late 1970s, however, a distinctive organizational architecture was in place, a set of standard governance mechanisms that applied to all the existing co-operatives and served as a template for the creation of new ones.

Each co-operative is an autonomous and legally independent entity; its membership in the Mondragón Co-operative Group is always a voluntary choice. Worker-members (*socios cooperativistas*) create the firm or join it by contributing their own private capital. The amount of these contributions varies from firm to firm, and is decided by each co-operative's General Assembly (*Asamblea General*). The Assembly is the ultimate sovereign power in the co-operative. It offers every worker-member the opportunity to participate on an equal footing (one member, one vote) in the formulation of the firm's strategy and in the election of its representative bodies.

The first and most significant of these bodies is the Governing Council (*Consejo Rector*). Composed of worker-members elected by the General Assembly, this is the standing governing body of the co-operative, and is in charge of overseeing the fulfilment of the policies agreed by the Assembly. One of the key responsibilities of the Governing Council is to select and appoint the co-operative's general manager (*gerente*), who in many cases is recruited from an external (sometimes non-co-operative) firm. In large and medium-size co-operatives, the general manager and key operational directors make up a Management Council (*Consejo de Dirección*), which runs the firm on a day-to-day basis and is expected to work in close alignment with the Governing Council.

Another important body in the governance of some co-operatives is the Social Council (*Consejo Social*). Composed of *socios* elected by the General Assembly, this is a consultative body tasked with representing the interests of members as *employees* of the firm. The Social Council is expected to counterbalance the managerial focus of the Governing and Management Councils—a function that is particularly significant if we consider that the Mondragón co-operatives do not recognize trade union representation for their worker-members. The strength of the Social Council, however, and the forcefulness with which it represents members qua employees, varies greatly from co-operative to co-operative (see Kasmir (1996) for an analysis of the relationship between Mondragón and labour militancy in the region).

Finally, a Monitoring Commission (*Comisión de Vigilancia*) performs an arbitration and auditing role in some co-operatives, although nowadays the audit function *sensu stricto* is typically sourced from specialist firms.

These bodies constitute the governance architecture in every one of the Mondragón co-operatives, but, as with any architecture, everyday life inside these structures adopts in each organization a very particular form. Individual co-operatives often express distinct and idiosyncratic cultures. The level of worker-member participation in the day-to-day management and governance of the firm, for instance, varies greatly across co-operatives. In many firms, attendance at the General Assembly rarely exceeds 50 per cent of the *socios*, unless a critical strategic decision, such as a plan to create a foreign subsidiary, is on the agenda. Otherwise, and in the absence of a sudden change in the

fortunes of the firm, strategic decisions are left in the hands of the Governing Council, which tends to make all important decisions in consultation with the Social Council. In other words, this is, at its best, a well-functioning system of worker *representative* democracy, which is no mean feat when compared to the level of worker participation and decision-making power in capitalist firms.

In addition to conforming to the standard governance architecture, all the co-operatives in the Mondragón group share a series of structural features. Perhaps the most striking one is the commitment to pay equity, expressed nowadays in a maximum salary differential ratio of 1 to 9 (in gross terms: the net value ratio is close to 6.5). The co-operatives also share the Mondragón Corporate Management Model (MGC or *Modelo de Gestión Corporativo*), which lays out in detail the core principles of the Mondragón experience and sets criteria for designing and evaluating management processes in the different organizations that make up the Group (see Mondragón 2013 for its most recent iteration; see also Heras-Saizarbitoria and Basterretxea (2016) for an analysis of how managerial discourse in individual cooperatives differs from that of the supra-cooperative bodies).

Up to the late 1980s, co-operatives were grouped geographically—or, in some cases, by historical or cultural affinity (Ormaetxea 1998). A fundamental, if informal, governing function was played by the financial arm of Mondragón, Caja Laboral Popular, which effectively operated as the co-ordinating entity of the group as a whole. In 1991 the system of relations between co-operatives was formalized in a new entity, the Mondragón Co-operative Corporation (MCC). Membership of MCC was (and remains) a voluntary choice of the individual co-operatives. At the time of its founding, more than 100 co-operatives joined MCC. They were grouped in three large divisions: financial, manufacturing, and distribution—a fourth division, knowledge (research, training, and professional services) was added later on. In 2008 the Corporation changed its name from Mondragón Co-operative Corporation to Mondragón, or Mondragón Corporation.

To co-ordinate the operations of the group, the Mondragón Corporation has created a series of supra-co-operative governing bodies. The Co-operative Congress (*Congreso Cooperativo*) is the ultimate decision-making body for the Mondragón Group as a whole. It typically meets once every four years, but can be convened extraordinarily by the Standing Committee, the General Council, or through a petition signed by 15 per cent of the worker-members of the Corporation. Delegates to the Congress (a total of 650) are chosen by the members of all the co-operatives.

The Standing Committee of the Corporation (*Comisión Permanente*) oversees the implementation of the policies agreed by the Congress. Its members are not elected by the Congress, but by the four Divisional Councils, which are themselves composed of Governing Council members from firms in the respective sectors. Each of the four divisions has a representation on the Standing Committee proportional to its relative share of the total membership of the Corporation.

The Corporation's General Council (*Consejo General*) is the executive body of the Group. It is composed of a Council President and four Vice-Presidents, each representing one divisions of the group. Since the creation of MCC there has been a lively discussion about the concentration of power in the executive bodies of the Corporation. The General



Council, and particularly its vice-presidents, have a degree of authority—and a level of access to operational information—that makes it difficult for the Congress, let alone the General Assemblies of individual co-operatives, to hold their decisions to account. It is also important to note that at the level of the Corporation there is no equivalent to the Social Council of the individual co-operative. Many studies have noted a strong managerial focus in the supra-co-operative managerial structures on the Mondragón Group, and a lack of a counterbalancing power (other than the unwieldy Congress) capable of asserting alternative interpretations of the mission and strategic orientation of the group (see, for instance, Bakaikoa, Errasti, and Begiristain 2004; Cheney 2006).

Since the founding of MCC in 1991, some co-operatives have chosen to leave the group and chart their own independent paths. In 2008 two large and successful co-operatives—Irizar, dedicated to the manufacture of coach vehicle bodies, and AMPO, specialized in the fabrication of stainless steel and high alloy castings—decided to sever their ties with the Corporation. Departures from (and returns to) the group are not uncommon. For instance, ULMA, a large co-operative group in its own right, left the Mondragón Corporation in 1993, only to return in 2002. These changes in the composition of the Mondragón co-operative movement are simply the expression of the fact that individual co-operatives, via their respective General Assemblies, remain, in the last instance, fully sovereign actors.

The glue that connects the co-operatives, beyond their formal membership in the Mondragón group, is their commitment to, and reliance on, a series of mechanisms of inter-firm solidarity. These include a common system of social security, managed by the *Lagun-Aro* co-operative group (*socios* of co-operative firms are considered self-employed by Spanish law and are therefore excluded from statutory unemployment protection and other forms of state support for wage workers), access to the credit facilities of the Caja Laboral co-operative bank, and, most importantly, a series of mechanisms that redistribute profits and obligations within the Group. When they join the Group, co-operatives agree to dedicate a percentage of their profits (variable depending on the division) to inter-co-operative funds intended to support firms in times of crisis and provide professional development opportunities for worker-members. The co-operatives are also committed to finding employment for worker-members whose firms are in the process of downsizing, a feature of the Mondragón system that significantly reduces the impact of economic crises on the aggregate levels of employment.

In sum, it is not easy to characterize the Mondragón system in any straightforward fashion. The relationship between the individual firm and the co-operative group is always complex and finely balanced, acquiring specific features for each co-operative and changing over time. Turnbull has described the Mondragón system as an example of ‘network governance’ in action (Turnbull 2002), and this is a good shorthand description for what is essentially an equilibrium in constant evolution. Furthermore, the fact that a large majority of co-operatives are situated in a close geographic proximity means that formal networks are always overlaid with a dense web of personal and familiar relationships that add a particular flavour to the organizational life of the co-operatives and its governance processes.

## 19.4 MONDRAGÓN'S INTERNATIONALIZATION

The Mondragón co-operatives were born within an autarchic Spanish economy that offered very few opportunities to expand abroad and plenty of protection from foreign competition. By the mid-1960s, some industrial co-operatives, particularly those in the machine tool sector, had begun to make inroads into foreign markets, but the internationalization of the Mondragón Group did not start in earnest until the opening of the Spanish economy that followed the country's admission into the European Union (then the European Communities) in 1986, and the completion of its full membership in the European Single Market in 1992.

With the liberalization of the Spanish economy, the Mondragón Corporation made a strategic choice for the internationalization of production. Mondragón's industrial co-operatives were among the first Spanish companies to take full advantage of the opportunities afforded by the European market. The 4th Co-operative Congress, held in 1993, identified this as one of the Corporation's priorities, a decision that was reflected in the MCC General Council's 1994 Co-operative Strategic Plan for Internationalization (*Plan Estratégico Cooperativo de Internacionalización*). This was a time when the Basque Country was littered with the ruins of once powerful industrial firms, and it was widely understood within Mondragón that co-operatives would suffer an identical fate unless they were able to compete successfully in international markets. The primary economic *raison d'être* of the co-operatives—the maintenance of secure, quality employment in their local communities—required a radical and proactive internationalization strategy.

The formula chosen for this internationalization has presented Mondragón with challenges as well as opportunities. Large firms operating in mature markets—the case of the home appliance manufacturer Fagor Electrodomésticos, which we will discuss in more detail later on, is emblematic in this regard—pursued an internationalization strategy focused on transferring manufacturing capacity to lower-wage markets via affiliate or subsidiary firms in those countries, while keeping higher-value operations in the home co-operative (Clamp 2000; Errasti et al. 2003; Luzuriaga and Irizar 2012). At the same time, many of the co-operatives that operate primarily as suppliers of large multinational companies—those in the automotive sector are the best example—had to relocate production to maintain their proximity to strategic clients. To give a sense of the scale of this process: in 2014 Mondragón co-operatives or their affiliates owned eighteen production plants in China, ten in Mexico, nine in the Czech Republic, seven in Brazil and six in Poland. In some cases, the Mondragón group acted as the broker of new international ventures, for example, through the creation of Mondragón industrial parks in Kunshan (China) and Pune (India). Several Mondragón industrial co-operatives are among the most competitive and export-driven firms in Spain. Companies such as Orona (lift manufacturing), Fagor Ederlan (automotive components), or Danobat

(machine tools), to name just a few, operate successfully in highly competitive international markets, proving on a daily basis that co-operative principles of organization and ownership are compatible with the highest standards of economic performance.

The rapid expansion and internationalization of Mondragón since the 1990s has led to a diversification of the typology of membership and a greater heterogeneity of employment contracts within co-operatives—something that has become a burning issue for the present and the future of the co-operative movement (Errasti, Heras, Bakaikoa, and Elgoibar 2003). In addition to the traditional worker-members (*socios cooperativistas*), the co-operatives have increasingly employed workers, particularly on short-term contracts, who do not enjoy the rights and obligations of membership. In some cases, co-operatives also employ limited-period worker-members (*socios colaboradores*), who possess the same participation rights as a permanent worker-member but do not enjoy the same social-security protections. If one considers only the workers employed by the co-operatives themselves (and not those of affiliated companies), worker-members represent currently about 80 per cent of the total workforce in Mondragón industrial firms. A significant proportion of workers without member status are concentrated in the distribution division, particularly in the consumer co-operative Eroski. The firm's rapid expansion in the Spanish market has been driven by the acquisition of capitalist food retailing and distribution firms, whose workers have often remained mere employees of Eroski (even when they have been given the option of investing capital and becoming worker-members). Today, less than half of Eroski's 36,000 employees are worker-members (Mondragón 2014).

It is however a fourth category of employment, that of workers in local and foreign subsidiaries, that best exemplifies the repercussions of Mondragón's breakneck international expansion. In 2014, foreign subsidiaries accounted for more than 11,000 of the Group's employees. These workers are, however, not members, that is, owners of capital in their respective firms, nor do they have any say in the decisions made by the parent co-operative. They remain in effect employees of capitalist firms. Bakaikoa, Errasti, and Begiristain noted a decade ago that 'the working conditions and labour relations of these affiliated companies depend not so much on the nature of the parent company, in this case of the co-operatives, but on the conditions extant in the country where each offshoot business is located' (Bakaikoa, Errasti, and Begiristain 2004: 78; see also Clamp 2000). In other words, the expansion of Mondragón co-operatives in China, Brazil, or the Czech Republic, for instance, has unfolded in conventional capitalist terms. As a result, '[t]he Mondragón system has created a new organizational paradigm based on a dual employment model wherein, apart from the co-operatives themselves, there are conventional companies dependent on the former' (Bakaikoa, Errasti, and Begiristain 2004: 79).

Many factors explain the emergence of this dual or 'coopitalist' model. For one, the legal principles that sustain the Mondragón governance and ownership model in the Basque Country have generally no equivalent in foreign jurisdictions. Furthermore, there is sometimes little appetite among employees of affiliates or subsidiaries to become co-operative owners—which would require them to invest their own capital

and become responsible for the management of the firm (and liable for its losses)—even in the rare instances when the possibility is presented to them (see Errasti 2015 for a discussion focused on Mondragón's subsidiaries in China).

Individual co-operatives and the Mondragón group as a whole have made efforts to extend their governance model to their subsidiary firms. Some co-operatives have encouraged subsidiaries to transform themselves into 'mixed co-operatives.' This legal figure, included in the Basque Co-operative Law of 1993, allows co-operative-members to control a majority of votes in their firm's General Assembly, while making room for the representation of external investors in the co-operative's Assembly and General Council. This essentially allows a parent co-operative to transform a subsidiary into a mixed co-operative and become a shareholder in it, thus safeguard its original investment as the new firm become increasingly autonomous and self-governing (see Flecha and Ngai 2014 for examples). The Mondragón Group has also promoted the adoption by affiliated and subsidiary companies of elements of its Corporate Management Model, and has in some cases facilitated the dissemination of best governance practices to the capitalist firms that are part of the Mondragón network. Yet it remains the case that, while the Mondragón co-operatives have been highly efficient in exporting technological capacities and operational management skills, they have been less successful in exporting the values and governance models that give them their distinctive identity back home (Azkarraga 2007; Errasti 2015). Or to put it differently, the internationalization of production has very quickly outpaced the ability of Mondragón co-operatives to implement their founding principles beyond their communities of origin. The goal of a 'democratic multinational enterprise' (Errasti, Heras, Bakaikoa, and Elgoibar 2003) remains as elusive as ever.

In sum, internationalization has presented the Mondragón movement with a particularly complex set of challenges. On the one hand, it has established new conditions for the success, or even survival, of individual co-operatives, and many have faced the challenge head on and become highly adept at navigating multiple production and distribution markets around the world. At the same time, however, this has brought into sharper relief the fact that preservation of co-operative employment and ownership at home often depends on the intensification of capitalist methods of production and labour utilization abroad. This essential tension is now at the heart of the Mondragón experience. The way it is tackled will determine the future identity of the Mondragón co-operative movement, and its relevance for other experiments in co-operative organization around the world.

## 19.5 MONDRAGÓN IN CRISIS

The current economic crisis has hit Mondragón hard. The most visible symptom is perhaps the bankruptcy of Fagor Electrodomésticos in 2013. The direct heir to the original Ulgor co-operative, Fagor Electrodomésticos had been one of the group's

flagship co-operatives, with 5,600 employees (2,000 of them worker-members) and eighteen production plants in six countries. Over the decade that preceded its demise, and during a period of massive growth in the Spanish construction sector, Fagor Electrodomésticos more than doubled its production capacity. In 2005 it acquired the French firm Brandt to become the fifth largest domestic appliance manufacturer in Europe (Errasti 2013).

The striking fact about the case of Fagor Electrodomésticos is not only that a co-operative of such significance and size could put itself in an unsustainable financial position, but that the Mondragón Group, via its General Council, refused to provide additional financial support and effectively abandoned one of its largest and most emblematic co-operatives to the bankruptcy court. At the same time, the collapse of Fagor Electrodomésticos showcases some of the strengths of the co-operative group. Prior to the ultimate decision to force the firm's bankruptcy, worker-members across the Mondragón co-operatives had agreed to significant pay cuts in a last-ditch effort to keep the firm afloat. In May 2013, for instance, the Co-operative Congress approved the establishment of a €70 million Fund (*Fondo de Reestructuración y Empleo Societario*) to facilitate the re-structuring of the firm—a fund that drew on contributions from all the co-operatives in the group. Once the General Council decided, a few months later, not to infuse any additional funds into the firm, other mechanisms of inter-co-operative solidarity kicked in, particularly the commitment to find employment within the group for worker-members made redundant by the bankruptcy. Today, a majority of the *socios* of Fagor Electrodomésticos have been relocated to other Mondragón co-operatives. The situation is wholly different, however, for the thousands of employees of the co-operative and its subsidiaries who were not members, and as a result are not protected by the group's safety net (Errasti, Bretos, and Etxezarreta 2016).

The crisis of Fagor Electrodomésticos has revived long-standing discussions within the Mondragón co-operatives and in their immediate social context about managerial competence and oversight, the pace and goal of internationalization, and the relationship between individual co-operatives and the corporate group (Ortega and Uriarte 2015). This is, of course, not the first time Mondragón has faced a harsh economic climate. In the late 1970s and for much of the 1980s the industrial co-operatives confronted a very serious recession. At the time, the crisis was mediated primarily through the exceptionally severe downturn in the Spanish economy (in 1976, little more than 10 per cent of the co-operatives' total output found its way to foreign markets). In their classic study of the Mondragón co-operatives in the 1980s, William and Kathleen Whyte (1991) dealt at length with the challenges that the worldwide recession of the late 1970s posed to the co-operative movement, and to Fagor Electrodomésticos in particular. The firm introduced at the time some radical changes in its mode of operation—most significantly, a new compensation policy for worker-members that linked individual returns (the Mondragón alternative to a worker's 'salary') to the economic performance of the firm (up to that point individual returns had been linked exclusively to the evolution of the Spanish consumer price index). Since then, individual returns in Fagor and other

co-operatives have been calculated through a complex formula that includes as a key factor the evolution of the co-operative's cash flow, used as a proxy indicator for the economic fortunes of the firm.

Economic crises, in other words, have significantly transformed and transfigured the Mondragón experience, and the current period of adjustment will similarly have profound implications for the organization and *ethos* of the co-operative movement. Economic difficulties not only test the competitiveness of individual co-operatives and the competence of their governing bodies, they also test the moral mettle of worker-members, and their commitment to the values and principles that have animated this co-operative experience over the last sixty years.

## 19.6 RE-FOUNDING MONDRAGÓN

In a recent document, the Mondragón Group identifies, among others, the following strategic goals for its immediate future:

1. To achieve a more intense experience of the Co-operative Principles and Values, on the basis of the centrality of the individual and of labour in co-operation ...
2. To encourage a form of leadership that is visionary and demanding, and coherent with the Co-operative Principles and Values
3. To encourage forms of co-operative solidarity that will allow transformation—not the perpetuation of unsustainable economic realities; (...)
4. To open the Corporation to other initiatives that might share similar values and objectives; (...)
5. To encourage an integrated education of individuals in values and skills;
6. To develop a more open and transparent communication policy. (Mondragón 2014b)

These commitments reflect some of the hard lessons Mondragón has learned from its recent travails, and suggest some of the changes the group will pursue in the coming years. The reference to 'the perpetuation of unsustainable economic realities,' for instance, is a clear reference to the demise of Fagor Electrodomésticos, and implies that the core principle of inter-co-operative solidarity will be increasingly complemented by the determination to restructure, even terminate, co-operative initiatives that prove unable to compete in their respective markets.

As we have suggested, these recent upheavals should be seen within the long trajectory of continuous transformation that has characterized Mondragón since its inception. In fact, the challenges that Mondragón faces today are to some extent the result of its own success—if we measured success by the ability of firms founded on the principles of workers' ownership and democratic governance to compete effectively and expand significantly within the parameters of an increasingly globalized capitalist economy.



This achievement has in turn transformed the conditions under which the Mondragón co-operatives must operate, not least the desires and expectations of their worker-members. Sixty years after the establishment of Talleres Ulgor there are few traces of the political and economic context that justified the launch of this radical co-operative experience. In 1956, per capita gross domestic product in Spain was barely 40 per cent of the average for West European countries. Spain was politically and economically isolated from the rest of the world, suffering under a dictatorial regime that repressed any form of labour militancy and took special aim at any expression of Basque national identity.

In the late 1950s, Spain started a process of economic liberalization that would eventually lead to greater openness to the flows of the global economy. In the wake of Franco's death in 1975 the country underwent an equally profound political transformation. In 1979, The Basque Country approved its Statute of Autonomy, gaining significant powers of self-rule, particularly in economic and fiscal policy. The socio-economic transformation of the country in the intervening years has been dramatic. Today, GDP per capita in the province of Gipuzkoa, in which the vast majority of Mondragón co-operatives are concentrated, is 34 per cent higher than the Spanish average; even more significantly, it is 28 per cent higher than the average of European Union countries. The productive structure of the territory differs starkly, moreover, from that of Spain, with a disproportionate emphasis on high-value manufacturing, engineering services, and exports. Even during the current economic downturn, the situation in Gipuzkoa and the rest of the Basque Country is comparatively benign—while still high (over 12 per cent at the time of writing), unemployment in Gipuzkoa, for instance, is about half of the Spanish average. All these facts owe a great deal to the activity and success of Mondragón's co-operatives.

This is, in other words, a prosperous part of the world, albeit one that has experienced more than its share of political turmoil and violent conflict over the last decades. The challenge for the Mondragón co-operatives has been to adapt to a social and economic environment that no longer resembles the conditions of penury and isolation that justified and energized their co-operative experiment. It is undeniable that the relative affluence of the region has eroded the co-operative spirit. *Socios* in the Mondragón co-operatives are cut from the same cloth as other members of their communities: they often value the material returns they obtain from their participation in the co-operatives—job security, higher pay, etc.—above and beyond their commitment to the principles and values that drove the foundation of those co-operatives in the first place. Or rather, they are inclined to think of those two dimensions—personal benefit and commitment to a co-operative enterprise—as discrete and separate aspects of their working life. In the case of the largest and oldest firms, new worker-members are joining organizations that were founded long before they were born, and which are now orders of magnitude bigger than the co-operatives their predecessors created. The worker-members are, furthermore, subject to the same processes of cultural and ideological change as any other member of their societies. As Azkarraga et al. note in their examination of the transformation

of the Mondragón movement, '[t]he process of de-ideologization has affected the whole of society and, as members of that society, the cooperative social body as well' (Azkarraga et al., 2012: 78).

Mondragón, we have argued, is not a co-operative, not even a supra-co-operative corporation. Members of the first generation of worker-members often used a phrase to describe their efforts: they were participating in a 'co-operative experience', *una experiencia cooperativa*. This is perhaps the most useful way of understanding Mondragón: not as a series of established firms, or a corporation with a particular organizational model and management philosophy, but as a form of practice that has evolved over time, has had its accomplishments and failures, and that at its fullest embodies and actualizes a founding commitment to the emancipatory power of co-operative associationism and workers' ownership (Sarasua 2010).

Criticism of the shortcomings of this practice have characterized the Mondragón co-operatives since their origins, and in this article we have identified some of the most salient targets of reproach. Yet the fact that these criticisms exist and persist reflects the strengths as much as the weaknesses of the movement. For it means that the practical realization of the Mondragón experience can still be held up to the standard established sixty years ago with the creation of the first co-operatives—that the ideal of a non-capitalist mode of economic existence founded on a personalist understanding of the worker is still alive and operative in the workings of the co-operatives, even if sometimes it resonates with barely audible force. Alongside the economic success of most of the firms in the Mondragón Group, this is perhaps the most significant achievement of the movement: the very longevity of this experiment in co-operative self-management, and its value as an example of both the potentialities and the dilemmas that will confront any such endeavour when it operates in a world dominated by a very different, often incompatible set of values.

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