

Extended Case Study

Mondragón Corporation (MC)

'Our attempt at co-operative enterprise is nothing more than a kind of formal association, oriented toward solidarity, created by workers in an environment of liberty and justice.'

Don José María Arizmendiarieta

Historical development

'In 1941, a young Basque priest, Father Jose Maria Arizmendiarieta, came to Mondragón, a small working-class town in the Basque province of Guipuzcoa in Northern Spain. He began his teaching work in the apprentice school of the Union Cerrajera, the industrial company which dominated the town of Mondragón. This school however, was not large enough to provide adequate training to the local youth. Failing to enlarge the school, Father Arizmendi gathered the support of the townspeople and opened a technical training school in 1943 with twenty students.'¹

The first graduates of the technical college (Escuela Profesional) began their careers at Union Cerrajera but some had a falling out with management after they were refused the right to purchase shares in the company. Five of these graduates – Luis Usatorre, Jesús Larrañaga, Alfonso Gorroñogoitia, José Ormaechea and Javier Ortubay – encouraged by the continuing support and guidance of Father Arizmendi, decided to put his teachings into practice and in 1955 acquired a bankrupt factory in Vitoria, near Mondragón, and a licence to produce small paraffin heaters and stoves.² The company was named ULGOR (after the founders' initials) and in 1956 developed a constitution that was to become the template for other worker co-operatives in the Basque country.

ULGOR grew rapidly and employed 143 workers by the end of 1958. The period of 1956–59 was characterised by the entrepreneurial drive of ULGOR's founders, resulting in the creation of a number of new co-operatives including Arrasate (the Basque name for Mondragón), Funcor (an iron smelting business), San Jose (which merged with other consumer co-operatives to form Eroski, now one of the largest retailers in Spain), Copreci and Ederlan.³

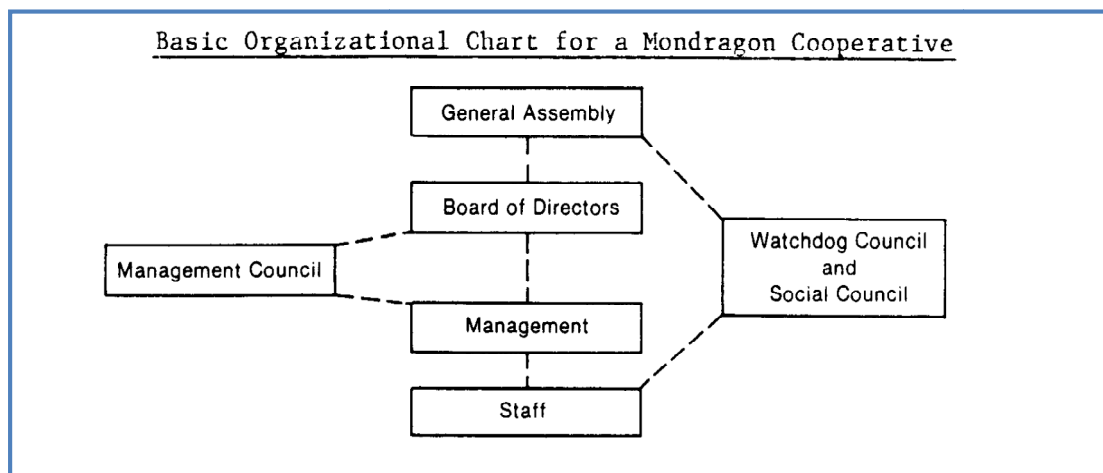
The movement grew rapidly. By 1982 there were over eighty-five industrial co-operatives as well as a host of agricultural, retail, housing and education co-operatives. One of Father Arizmendi's core beliefs regarding co-operativism lay in the strength of association. He believed that a solitary worker co-operative would be inherently weak and vulnerable to other forces outside of its



control. Strength lay in federations of worker co-operatives, sharing resources and profits, as well as risk. Initially, worker co-operatives founded regional federations; the first federation was established in 1965 by ULGOR, Arrasate, Ederlan and Copreci. Known as ULARCO, its purpose was to provide shared marketing, product and sales resources, as well as having a common pool of capital.⁴ Various federations were established between then and 1987, when the first co-operative congress took place. The Mondragón Corporation (MC) was born.

Individual co-operative structure

Figure 1-Organisational structure of an individual Mondragón co-operative



Source: D. P. Ellerman, The Mondragón Cooperative Movement. Harvard Business School Case No. 1-384-270. (Boston: Harvard Business School, 1984).

The above diagram is a conceptual view of the governance structure of an individual Mondragón worker co-operative. The ultimate authority in the co-operative is the General Assembly (GA), the annual meeting of the members. The Assembly elects (on a one member/one vote basis) the board of directors or the Junta Rectora. The board of directors appoints the president (chief executive officer) and the management team. The management team then directs the staff (members) in the pursuit of the co-operative's objectives. There is a clear line of accountability to the members in the operations of the co-operative.

The role of the councils⁵

Management Council

The Management Council acts as an advisory body to the board of directors. Its membership consists of the management team and the president of the co-operative.

Social Council

The Social Council is concerned with issues directly affecting members such as pay structures, health and safety, and conditions of employment. Members are directly elected to the council by dividing workers into sections (usually of fifteen to twenty people) and then voting for a section representative. The section representatives then form the Social Council which meets at least once every three months. While the council is mainly an advisory body, it does have some decision-making powers relating to pay scales, safety and social security.

Audit Council

Directly elected by the GA, the Audit Council performs an auditing role in the co-operative, for example by ensuring financial statements are accurate. The GA can request information from the management team which is then passed on to the Audit Council for verification.

The other important aspect of an individual Mondragón co-operative that deserves attention is its treatment of the growth in the value of the business. A co-operative allows each member to participate in this growth through an internal capital account. This account contains the member's capital contribution (membership fee) and every year interest is paid on this amount. The amount in this capital account is also increased using the surplus generated at the end of a trading year. Up to seventy per cent of the profit generated is allocated to the members' capital accounts on a proportional basis. Of the remainder, a minimum of twenty per cent is allocated to the collective reserves of the company and ten per cent for social/charitable causes.⁶ There are rules however, governing access to the capital accounts. Members can only access the full amount in their capital accounts upon retirement. If a member resigns or is fired (this has yet to happen), they are only entitled to seventy per cent of the value of their capital account.⁷

In the next section we will encounter the Mondragón Principles of Co-operation, one of which is Wage Solidarity. This principle is of particular importance in individual co-operatives as it sets a wage differential limit between the highest earner in the company and the lowest. The ratio was originally 3:1 but has now risen to around 6:1 (though the scale can rise to 8 in exceptional



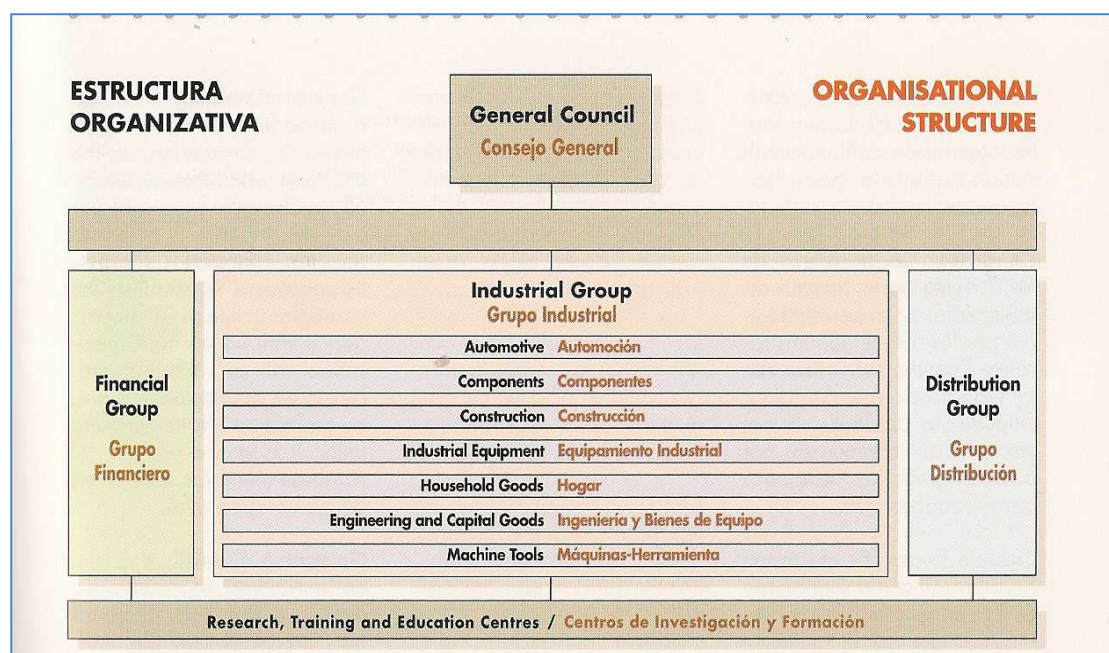
circumstances), meaning the director or highest paid manager of a co-operative cannot earn more than six times the wage of the lowest paid worker. This principle has obvious implications for recruitment policies, making it more difficult to retain and attract top employees.

Mondragón structure

The first co-operative congress took place in 1987 and decided upon the basic principles of the co-operative experience and the group solidarity fund.⁸ The co-operative congress is equivalent to the General Assembly in an individual worker co-operative. The aim of the congress is to establish the strategic criteria by which the Corporation is to be administered, through the planning and co-ordination of its business units. It is made up of 650 members delegated by the various co-operatives.

The Standing Committee governs under a mandate of the co-operative congress. Its basic function is to promote and oversee the implementation of the policies and agreements adopted by the congress, while constantly monitoring the evolution of the group. The rest of the organisational structure can be seen in the figure below. The group is divided into four key areas and these divisions are overseen by the General Council, which is responsible for the development and application of corporate strategies and objectives, as well as co-ordinating the policies of the different divisions and co-operatives.

Figure 2-Mondragón Corporation Organisational Structure



Source: J. R. Fernández, La Experiencia Cooperativa de Mondragón: 1956-2000 (Guipúzcoa: Mondragón Corporacion Cooperativa, 2001), p. 87.

Table 1-Mondragón Principles of Co-operation

Open Membership	This principle declares that we are open to all men and women who can demonstrate their professional capabilities for the jobs we are able to create.
Democratic Organisation	Based on the equality of all our worker members, this principle establishes “one person one vote” as the basis of our democratic organisation.
Worker Sovereignty	The main agent for transforming nature, society and people themselves, and therefore deserving of the distribution of the wealth produced.
Instrumental and Subordinate Nature of Capital	Capital is an instrument subordinate to labour, and necessary for business development. It is deserving of limited remuneration, not directly linked to the results obtained.
Management Participation	This implies the progressive development of self-management with the participation of members in business management.
Wage Solidarity	In accordance with the actual possibilities of each co-operative enterprise and in solidarity with the rest of the Corporation and the social environment.
Interco-operation	This involves searching for potential synergies derived from overall size: the pooling of profits and the transfer of worker-members



Social Transformation	The creation of new co-operative jobs and support for community development initiatives through the majority reinvestment of profits.
Universal Nature	Supportive of all those who work for social democracy, sharing objectives of peace, justice and development.
Education	The dedication of sufficient human and economic resources for co-operative and professional training.

Superstructures

Key to the development of Mondragón was the establishment of a support structure of organisations (many of them co-operatives themselves). Known as 'superstructures', these institutions include banks, insurance companies, social security, research centres, schools, and many others. Scholars and practitioners agree that similar support structures are vital for other national co-operative movements as well, including the UK movement. Some of the most important Mondragón superstructures are outlined below.

Caja Laboral Popular

Between 1956 and 1959, the five founders of ULGOR established or assisted in the creation of several co-operatives, some of which were spun out from ULGOR. Father Arizmendi realised that the financial demands of these enterprises had outgrown conventional financial institutions and persuaded the co-operatives to establish a bank, the Caja Laboral Popular (CLP), in 1959.⁹ The CLP was to have a profound effect on the sustainability and growth of the Mondragón co-operatives. Not only did the bank act as a vital source of credit and other financial services, but also it assisted in the development of new co-operatives through its entrepreneurship and management department.¹⁰ Between 1961 and 1970, over forty industrial worker co-operatives were established as result of the CLP.¹¹ The bank financed the growth of the co-operatives through its deposits, the majority of which came from the savings of local Basque people.¹² The CLP continues to play a vital role in the Mondragón Corporation and currently has total assets of over €21bn.¹³

Lagun-Aro



In 1958, Spanish government legislation decreed that members of worker co-operatives were ineligible to receive social security (as they were deemed to be self-employed). This change in circumstances led to the creation of an insurance, welfare, and pensions institution, Lagun-Aro, in 1967.¹⁴ Today, Lagun-Aro's Endowment Fund stands at nearly €4.5bn and supports thousands of members and their families.¹⁵

Research, Training and Education Centres

Some 3,438 students were enrolled in Mondragón University in 2010 and there are fourteen technology centres with an R&D budget of €144m. The role of research, particularly in the area of production technology, has played a vital part in the growth and evolution of the worker co-operatives, allowing them to weather economic recessions by innovating to create new product lines.

Mondragón Corporation today¹⁶

The Mondragón Corporation is the largest business group in the Basque country and the tenth largest in Spain, with a group turnover of €14.75bn. Perhaps the greatest success lies in its employment levels: from the initial ULGOR factory with a staff of twenty-five, the group now employs over 80,000 people worldwide. There are around 140 worker co-operatives that are members of the Corporation, even though there are over 250 businesses in the group. The difference is explained by a large number of overseas factories which are not worker co-operatives. One of the current priorities is to introduce employee ownership in these subsidiaries over a period of time, with a view to eventually converting them into co-operative enterprises. One of the group's other pressing concerns is the education of the latest generation of Basque young people in the co-operative model of enterprise, a vital task in ensuring its sustainability in the region.

The Mondragón Corporation stands as the world's greatest example of industrial democracy and worker co-operativism. The group's success can be attributed to its culture of innovation and autonomy; largely cut off from the rest of the co-operative movement, the Mondragón co-operatives developed their own vision of co-operation, based on a unique set of principles and processes.

¹ D. P. Ellerman, *The Mondragón Cooperative Movement*. Harvard Business School Case No. 1-384-270 (Boston: Harvard Business School, 1984), p. 1.

² R. Ridley-Duff and M. Bull, Mondragón Cooperative Corporation case study. *Understanding Social Enterprise: Theory and Practice* (London: Sage, 2011).

³ Ellerman, *The Mondragón Cooperative Movement*, pp. 1–2.

⁴ Ellerman, *The Mondragón Cooperative Movement*, p. 5.



⁵ Ellerman, *The Mondragón Cooperative Movement*, p. 7.

⁶ Ellerman, *The Democratic Worker-Owned Firm*, p. 101.

⁷ J. P. Bonin, D. C. Jones, L. Putterman, 'Theoretical and Empirical Studies of Producer Cooperatives: Will Ever the Twain Meet?' *Journal of Economic Literature* 31 (1993) pp. 1290–1320. See p. 1298. [There is some inconsistency about the use of pp, e.g. see note 3 where you do not use pp for exactly the same reference.. See also notes 5 and 20.]

⁸ J. R. Fernández, *La Experiencia Cooperativa de Mondragón: 1956–2000* (Guipúzcoa: Mondragón Corporacion Cooperativa, 2001), p. 57.

⁹ Fernández, *La Experiencia Cooperativa de Mondragón: 1956–2000*, p. 2. The bank itself is a co-operative: its membership consists of the Mondragón worker co-operatives who use its services as well as the employees of the bank. Representation on the board of the bank is shared proportionally between the two member groups, with eight of the board members elected by the worker co-operatives and four by the employees.

¹⁰ The Division drew on the experiences and knowledge of the founding members of ULGOR and institutionalised and generalised this knowledge in the department.

¹¹ Fernández, *La Experiencia Cooperativa de Mondragón: 1956–2000*, p. 3.

¹² Key to the CLP's popularity amongst Basque savers was a marketing campaign called something along the lines of 'Savings or Suitcase'. Basque residents were encouraged to save with the bank in order to support local economic development; the alternative was to pack your bags and leave the area as without your support there would be no jobs for locals.

¹³ CLP Audit Report, Consolidated annual accounts at 31 December 2010.

<https://www.cajalaboral.com/clweb/en/informes.aspx>, accessed 28 June 2011.

¹⁴ Fernández, *La Experiencia Cooperativa de Mondragón: 1956–2000*, p. 15.

¹⁵ MCC economic data 2010. <http://www.Mondragón-corporation.com/language/en-US/ENG/Economic-Data/Most-relevant-data.aspx>, accessed 28 June 2011.

¹⁶ MONDRAGÓN Corporation, Video report of 2010 year. <http://vimeo.com/24913713>, accessed 28 June 2011.

