

**Co-operative and Training dimensions in entrepreneurship.  
A study of the methodology of the Saiolan Centre in Mondragon.**

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Saiolan is a centre for training of entrepreneurship and the development of new entrepreneurial ventures, within the Mondragon Cooperative Corporation (MCC)<sup>2</sup>. In this paper I present their educational model and analyse the notion of entrepreneurship practised here. This experience underlines the importance of cultural and co-operative dimensions in what is often seen as a rather individual phenomenon - becoming an entrepreneur. The analysis is guided by two questions: *What role does co-operation play in this entrepreneurship process?* and: *How is the relation between education and the idea of a new entrepreneurial venture?* Finally the paper looks at the role of the Saiolan Centre itself as an example of social entrepreneurship.

The practice at Saiolan, although being co-operative, does not necessarily lead to the formation of co-operatively owned firms. This brings up the rather tricky question of the relationship between co-operative ownership and co-operative culture in business, asking: what are the relevant empirical experiences when researching co-operative entrepreneurship? Co-operative entrepreneurship is often understood to be about the formation of co-operatively owned enterprises. In this study, the co-operative aspects will be related to the entrepreneurial process itself, i.e. *before* the constitution of the actual enterprise, and not to the particular ownership structure being established.

Entrepreneurship is understood as the capacity of seeing and realising innovative business projects by combining technology, capital, production and market in new ways. In this respect it is close to the Schumpeter formulation. But more than a quality situated with

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<sup>1</sup> This paper draws on a comparison of the conclusions from an earlier study of Saiolan (Jakobsen 1990) with updates and new information from later revisits - the latest one in 1998. A shorter version has been published in *Review of International Cooperation*, vol. 93. No.1, 2000.

<sup>2</sup> MCC is a corporation of more than 100 co-operatives within machine-industry, domestic appliances, daily consumer goods distribution, IT- technology, finance, education and research. It employs almost 50.000 people. MCC originates and has its center in Mondragon in the Basque country in Spain, but has to-day affiliated co-operatives from Catalonia and Valencia, and has acquired or opened enterprises and filials in various European, Asian and Latin American Countries.

the singular specially talented individual, or as a function in the development of the capitalist economy (Schumpeter 1934, 1944), entrepreneurship is here understood as a capacity that can be associated with management and leadership and most important: which can be learned.

### **Entrepreneurship in the Mondragon Co-operatives**

During the 1970's the Mondragon Co-operative Experience developed a remarkable capacity for setting up new co-operatives and helping weak ones "back on track" A special department 'division empresarial' was created within the Co-operative Bank (Caja Laboral Popular)<sup>3</sup>. The strategy for growth and development, during that period, was to create co-operative firms in the various regions of the Basque provinces. Some 50 co-operative companies were set up or helped during those years (Ormaechea 1990), and a systematic approach to new co-operative business ventures was developed - "socialisation of entrepreneurship" as the method was labelled. (Ellerman 1982). By the middle of the 1980's this strategy came to a halt, and has become replaced by one of growth through joint ventures and wholly owned subsidiaries (Clamp 1999). 'Division Empresarial' ceased as a special department within the Bank in 1990, and the activities relating to enterprise and engineering consultancy were continued in a new co-operative LKS S.Coop. In the same period the Saiolan founders started developing their method at the Politechnical School in Mondragon. With time this method has become a strategy for developing entrepreneurial ideas and energies in the region, including in the MCC-co-operatives.

"Saiolan tries to create a dynamics that promotes professional self-motivation and gives a basis for strengthening the ability of self-government as well as developing initiatives, where a willingness to risk oneself is present. One of our motivations behind this is that, according to recent investigations, 80% of our young people have as their life goal to become functionaries. They expect security for the rest of their life and not to take responsibility."

Armin Isasti, director and founder of Saiolan, in T.U. no.302, April 1987. (translated from Spanish)

The social-economic background for this new experience in the mid-1980'ies was the economic crisis that hit Spain, at the time, with unemployment figures of more than 20% in the Basque provinces. Saiolan pursued simultaneously two aims: 1) create work by the creation of new firms, *and* 2) support young newly graduated students (and other entrepreneurs) in developing the skills necessary for transforming a business idea into a

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<sup>3</sup> Caja Laboral Popular is a cooperative bank whose membership is shared between the co-operatives in the MCC and the worker-members of the bank. The elected board is composed of 50% representing the cooperative member-firms and 50% representing the members working in the bank.

business activity. Saiolan actually means “experiment with work”. The purpose was explicitly to contribute to the development of entrepreneurial culture and counteract the wage-earner mentality prevailing in the higher educational milieus.

Since the start in 1985 Saiolan has been the ‘catalyser’ of 48 companies that gave work to over 500 people in 1999. Saiolan is situated at the premises of the old Polytechnic al School, now Mondragon University. It has a staff of 5-7 monitors or teachers and, more or less permanently, some 25-30 students working on business projects. Most of the participants are postgraduates, and a few are experienced entrepreneurs. The students are recruited from all the Basque provinces.

During later years a good number of the business projects at Saiolan have been “spin off’s” from co-operative firms within the Mondragon Cooperative Corporation (MCC), but many are new starts or joint ventures with firms not directly affiliated with the MCC. 23 companies are run by previous postgraduates (Table 1). In all 185 have worked at Saiolan, of which 88 have created or been the co-creator of a new business venture. The new business ‘typically’ begins as a small enterprise with only the entrepreneurial team working, and eventually grows. In the case of joint ventures the entrepreneur or team of entrepreneurs, who was/were trained through the development of the business project normally becomes the manager(s) of the new venture. Some entrepreneurial projects become legally formed as co-operatives, but it is not many. The law on co-operatives requires at least five people to start as a cooperative, and many of the Saiolan-projects initiate their business with fewer people (although with a growth potential), and therefore starts off as another formal enterprise type.

Table 1: Number of firms started from Saiolan 1985-1999, and number of employed. Ultimo 1999.

| Entrepreneur                                | Firms generated in Saiolan | Number of work posts, ultimo 1999 |
|---|----------------------------|-----------------------------------|
| Post graduates                              | 23                         | 128                               |
| Experiences entrepreneurs                   | 5                          | 61                                |
| In collaboration with other firm (spin off) | 10                         | 217                               |
| Diversification of existing firm            | 10                         | 102                               |
| <b>Total</b>                                | <b>48</b>                  | <b>508</b>                        |

Source: Saiolan

**The educational/entrepreneurial process**

The educational program at Saiolan lasted between 18 months and 2 years the first years of existence, but has in later years become reduced to in average 12-14 months for a project to become developed. Technically it is a postgraduate program after a completed university level degree. Through the program the entrepreneurship students learn to identify suitable business ideas, choose one and develop it into a real business project. The more traditional conceptualisation of education does not work for this type of activity. Entrepreneurship is learned in practice, and depends on the capability of self-learning.

The Saiolan approach appears as one of the possible frames for taking the first real steps in a learning environment rather than on the market as is the case for most entrepreneurship learning. The following characteristic of the Saiolan educational program concentrate on the co-operative aspects that I have found striking compared to other programs of entrepreneurial training.

***New business idea is a common concern.*** Contrary to many entrepreneurship courses, most of the students at Saiolan do not bring with them a specific business idea. The business idea is considered something which is developed in a social process. It is a shared responsibility to find appropriate business ideas. Both personal at Saiolan, contacts in local business and people from other institutions may contribute to this process. Of the 48 successful business ideas, half have been generated in Saiolan and half by students or existing enterprises. As the method becomes known, relatively more ideas are provided by people and businesses from outside Saiolan.

***Work in teams.*** Saiolan develops managers/owners of new enterprises or business units who have been *exposed to co-operation towards the inside/internally* in several aspects. Part of the educational tasks occur as work in groups. It is quite common that 2 or 3 join to develop one business idea. Moreover, the 16 students which start the program at the same time have their desk, and do their work in the same big room. In this sense it approaches more a common workplace. They are not placed in individual offices, as would be the case in e.g. science parks.

***Openness. Exchange of knowledge and information of relevance to the business projects is encouraged*** as a part of developing fruitful relations of collaboration. The fear and risk of somebody stealing your idea or other forms of distrust is handled in an open and a social situation and not behind locked doors.

This point may be helped by the fact that Saiolan is situated in an educational context, and not in a private, for-profit consultancy milieu. Moreover Saiolan is situated in the

heart of a co-operative business milieu with a tradition of a high degree of openness and exchange of knowledge and innovative ideas, with relatively easy access to information, and in the Politechnical School where many technical projects have been developed through the years on petition from the industrial co-operatives.

***Co-operation towards the outside is favoured.*** Very early in the educational program the students have to contact and link up with existing enterprises within the field of the chosen business idea. They learn how to cope concretely with competition and co-operation within a specific business sector while they are at SAIOLAN. They learn to use available centres of knowledge and information for their project, and thus gradually establish a useful network of knowledge, contact, and co-operation for their specific business idea, parallel to the theoretical development of the business project.

***Monitoring or tutoring is carried out with a co-commitment*** to the success of the chosen business idea. The ‘property right’ to the idea, however, remains with the student, or is shared with a company in the case of a joint venture. This function differs both from classical university tutoring and normal business consultancy.

***It is a training as a generalist not a specialist.*** The educational program on a whole can be said to have a *holistic approach*. The coming leaders of a new venture are expected to have both the technical, and the economic, and the organisational insights necessary to understand and run the planned enterprise, and they have become trained in making and using a development strategy for their business venture as well (‘plan de gestion’).

***The “exam” consists in actually getting the new business venture going.*** There is no formal exam to mark the end of the program. The aim is to create enterprise leaders with entrepreneurial capabilities, not professional project makers, nor firm owners afraid of growth.

### **Phases in the educational process**

The mission statement of Saiolan underlines the individual attention to the particular entrepreneur and the project idea all the way through to its realisation as a new business. Even so certain tasks, processes, and phases are identified as common to all. The process roughly has three phases, whose duration vary with the project. After a few months during which the entrepreneur students develop a study of a particular technology, types of products, or economic sector, a specific business idea is chosen by the student, the Saiolan tutors, and eventually local business people together. Then the student and the project are assigned a tutor

from Saiolan, and through the next year and a half a prototype of the product is elaborated, a feasibility study, and a business plan. During this phase the student might take specific courses in order to acquire the necessary technical competence for the business in question. This phase may last 1 year. Before finally starting the business the prototype product is tested in the market.

Table 2: The sectors and numbers of firms which originated in Saiolan and were functioning by the end of 1996

| Sector of start-up                          | Period of start-up | 1986-1990 | 1991-1995 | 1996 | Total |
|---|--------------------|-----------|-----------|------|-------|
| Information technology                      |                    | 1         | 3         | 1    | 5     |
| High technology products                    |                    | 7         | 1         | 1    | 9     |
| Service, consultancy, educative, artisanary |                    | 2         | 16        | 2    | 21    |
| Total number of start-ups                   |                    | 10        | 20        | 5    | 35    |

Source: Saiolan

The types of enterprises which have originated from Saiolan are shown in Table 2. The range goes from Information technology to production within metal works and high technology to various business services, artisan production, and educational and consultancy services, as well as firms within the social enterprise sector. An interesting type of new firm projects has been developed in later years. They are *community development projects* which combine a commercial enterprise in the urban milieu with an artisan producer enterprise in a rural district, within the same value chain (brand of products). Another new area of projects originate in environmental concerns. Some have been constituted as co-operatives, but since many initiate their business with few people, most have private ownership or in the case for bigger projects: stock ownership.

“.. Saiolan functions in the crossroad between the firms that produce and sell their products, the research centres that contribute with their technology, the Mondragon University and other centres of business development and consultancy, like the LKS. In synthesis, it forms an all-together which could be named “knowledge on enterprise creation and work”, a raw material which is intangible, but maybe the most necessary one, and also the most scarce one when it comes to creating enterprises, new business opportunities and new jobs”

Conference-paper by José María Ormaechea (1999)

Co-founder of the first Mondragon Co-operative, director of Caja Laboral 1960-87

## **MCC and Saiolan**

The MCC created a couple of years ago (1997) *a fund* to support innovative initiatives within the Mondragon co-operatives. The fund offers to cover the costs of development when member co-operatives address Saiolan with a business idea that they would like to develop into a new “spin off” project. In case of success the financial support will be paid back, in case of failure the fund will cover the loss. This reform has made possible *a very interesting innovative form of co-operation* between the particular co-operative enterprise and Saiolan, where Saiolan offers to select the students that will be the entrepreneurs of this project (in consensus with the firm, naturally). On its side, the firm in question, assigns a person to follow the project and accepts that these students, eventually, become the managers of this new venture in case it prospers. Saiolan commits itself to monitor the project development by assigning one or more of its tutors and teachers to participate actively in the successful development of the project until completion. Since this agreement has been signed, 6 entrepreneurial projects in joint venture with MCC-cooperatives have been developed and become new cooperative business units.

## **Community/social entrepreneurship**

Saiolan has acquired an important function locally as a place that develops new knowledge on viable projects and methods in the community. Through time it accumulates experience about conditions and methods for developing new business ventures in the region. This function was apparent in 1990 but has since become much more pronounced. The Saiolan approach has influenced the way the public authorities in the province look at promotion of and support to the creation of new employment. Since 1997 their ideas and methodology have become integrated as one of the ways the MCC promotes for the creation of new jobs in the co-operatives. In this sense Saiolan and its personal have become, what has been called ‘community entrepreneurs’ or ‘social entrepreneurs’, meaning that they contribute to the formation of entrepreneurial energy and processes at community level for local business. (Johannison 1986 and 1989).

The role of the centre in generating a viable business idea, the participation of the monitor in the process, and the combination of education and enterprise generation are the three most specific features of this methodology. These features are not necessarily specific to a co-operative development, but it happens to be very much in the tradition of the Mondragon Co-operative Experience which time and again has generated new organisational ideas from

the educational sphere, and whose inspirator, the priest Don José Arizmendarrieta emphasised and practised the constant close connection between learning and work -i.e. between education, enterprise, and community. In this sense Saiolan is one more result of ideas realized by people who are socially and economically embedded in a co-operative business culture. And it gives substance to a hypothesis that with the right mix of social and economic forces (competences and wills) the co-operative values in business are not only no hindrance for the success of a combined efforts of business economic growths and social developmental concerns, they even facilitate such development, also in year 2000.

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