REGIONAL CO-OPERATIVE DEVELOPMENT:

THE MONDRAGON EXAMPLE

by

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ABSTRACT

The Thesis examines the dynamics of the Mondragon Co-operative system in the Basque Region of Spain, and assesses the implications which the system has for co-operative movements in other regions. The polarities of co-operative independence and interdependence at Mondragon are examined in the context of an increasingly competitive European marketplace.

Shortcomings are identified in conventional Canadian regional development initiatives, which may be minimized through co-operative efforts in the marketplace. It is argued that historically Canadian co-operative members have lacked adequate legislative, commercial and financial resources as well as systematic organizational links with each other to become a significant third sector of the economy. A 'proactive' approach is suggested for co-operative system development, as a means to enhance and expand the co-operative movement in Canada.

The Mondragon experiment indicates that technical and financial support through interco-operative linkages can provide a near guarantee against later failure. The Caja Laboral Popular, Ikerlan, the L.K.S. and other support co-operatives, which are governed by the producer co-operatives, assist the producer co-operatives through losses due to changes in market conditions or other variables. At the same time, interco-operative collaboration permits co-operatives to achieve economies of scale which are lacking in Canada's co-operative tradition. The development process in the Basque region is facilitated by formulas designed to provide essential social and educational services, mitigate
unemployment and provide lifestyle opportunities through economically democratic means.

The thesis contends that while an abrogation of autonomy is a necessary component of co-operative growth and development, sufficient decision making options must be left in the hands of co-operative workers. Balancing the need for autonomy and the need for economic vitality at Mondragon has been a difficult and seemingly unresolved dilemma, particularly since the mid-1980s. While the recent reorganization of the Mondragon system raises serious questions about the future of worker participation in many spheres of the system, Mondragon is offered as a crucial component in the ongoing debate on the need for an economically as well as politically democratic community.
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CHAPTER 1

NATURE OF THE STUDY

1.1. Purpose

The purpose of this study is to examine the dynamics of co-operative system development at the Mondragon Co-operative Complex in the Basque region of Spain and to assess the implications of this system for other co-operative movements. The study has several components. First is a general investigation of patterns of worker co-operative development in Canada, in order to provide a basis of comparison for the Mondragon system. The second component is an exploration of the benefits of a systems approach to co-operative development, as opposed to an incremental, or non-integrated form of co-operative planning. This section provides an understanding of the general polarities of independence and interdependence in worker co-operatives. It is argued that a 'proactive' approach to co-operative system development is needed in Canada if worker co-operatives are to survive and expand, and that therefore co-operatives must abrogate some autonomy in the process of building co-operative systems. At the same time, it is argued that care must be taken to ensure that important decision making options are left in the hands of workers. The third component investigates the Mondragon approach to co-operative development, focusing on the manner in which it has dealt with the issue of interdependence and integration. The final component outlines the lessons of Mondragon's approach to interdependence and integration for co-operative development in Canada.
1.2. Rationale

Worker co-operatives tend to be small and isolated. They have much to learn from co-operative successes, and Mondragon is one of the largest in the world. In a thirty year period, the Mondragon group has grown from a handful of pioneers led by a Catholic priest to a conglomerate of about 187 co-operatives (94 industrial) with nearly 22,000 worker-members and a sales record of more than 2.5 billion dollars. (Phillips,1991:38)

From a small town base, the Mondragon complex has developed into the largest industrial group in the Basque region, and the seventh largest in Spain. It is the largest manufacturer of domestic appliances in Spain, is doing the most advanced laser welding in Europe, and has grown into a network of producer, consumer, educational, social welfare, housing and financial co-operatives. As possibly the most economically successful co-operative of its kind, Mondragon challenges the view that worker co-operatives cannot survive and prosper in the long term. As Ana Gutierrez-Johnson (1984) argues:

> Since the Beginning of modern Western industrialization, the belief in the possibility of creating dynamic production enterprises, ruled by principles of equity and distributive justice for the workers, has remained an imperfectly fulfilled hope. Attempts have been made to create such enterprises, but most were small and short-lived. This is why the thriving network of co-operative organizations centred in the Basque town of Mondragon in Northern Spain has been attracting world-wide attention. This network is the first historic example of several kinds of cooperative organizations that have achieved a long-term, large-scale record of success. (p.35)

Phillips (1991) notes that Mondragon's importance is in its "almost unqualified economic success which belies the conventional wisdom" which presupposes that producer co-operatives are destined to a "short, no-growth existence."(p.38)
Much recent interest for developing worker co-operatives world-wide comes from the notable success of the Mondragon experience. In terms of its extraordinary employment record, for example, Greg MacLeod (1989) contends:

From 1975 to 1985, the whole Basque region, like most of the western world, suffered through a severe economic crisis. During this period the region lost 150,000 jobs. In striking contrast, the Mondragon complex gained over 4000 jobs. (p.3)

The Mondragon Group’s ability to survive severe recessions, even while increasing employment opportunities and experiencing economic growth, is unquestionably a source of great interest to economists as well as to other theorists concerned with social change. An essential aim of any co-operative movement is the provision of employment, and Mondragon’s success in this pursuit is overwhelming. While paying wages equal to or better than private employers in the region, not one Mondragon worker has ever been laid off, and only one co-operative (a small fishing co-operative, established in the 1950’s) has failed to survive. (Phillips, 1991:38-39; Fleckenstein, 1992:61; Quarter, 1989:38)

The experiment is even more relevant to the Canadian experience because, like many areas of traditionally high unemployment in Canada, Mondragon is peripherally located. John Jordon (1982) notes that:

One can make a good case that the type of environmental conditions best suited to initiating a Mondragon-type effort are ones in which Canada abounds. These are the more peripheral areas of the country; areas such as Cape Breton, much of Quebec, parts of Ontario and the Prairies. These are also areas where other types of co-operatives tend to be numerous and strong, and areas where the tradition of the social gospel has backed co-operative and community development. These are also the areas where the macro development strategies of DREE have revealed their impotence. On this basis alone, Mondragon merits careful consideration in the Canadian context. (p.29)

The early members of the Mondragon co-operatives perceived that in small communities
people would have to be more innovative and self supporting, than if they had been located in larger centres. (MacLeod, 1990; Kaswan and Kaswan, 1989:9) The Mondragon Co-operative Complex is centred in the village of Mondragon, in a geographically isolated valley deep in the Pyrenees Mountains in the Basque province of Guipuzera, in Northern Spain. With a population of less than 30,000 people and no airport or railroad in the village, the only access to the outside world is on a narrow two lane road which winds through the mountains to the larger centres to the north and south. With few exceptions (a handful of co-operatives situated in the province of Navarra) the co-operatives are located primarily within a fifty mile radius of the village of Mondragon. (Phillips, 1991:38)

The Mondragon experiment offers "practical solutions to problems that other worker co-operatives have faced over the years." (Quarter, 1989:13) According to Ruth and Jaques Kaswan (1989):

Though their achievements are closely related to local conditions, the performance of these co-operatives is instructive for others because the challenges they face, like balancing democratic decision-making with productive efficiency, or more mundane problems like financing, planning, or relating principles to practice, are similar to the challenges faced by co-operatives everywhere. What works for them may not work for us, but just as they borrow ideas from others, so we might try to learn from them. (p.9)

While the Mondragon experiment is relevant to a discussion of community economic development in peripheral areas in Canada, care must be taken in considering the implications of its experiences. Co-operatives in Canada and elsewhere cannot simply adopt foreign models of co-operation. Local circumstances must be considered in the planning and implementation of local community development initiatives, including co-operative initiatives.
As George Melnyk (1989) contends, worker co-operation is not a "monolithic international ideology," but an "outgrowth of and an adaptation to certain conditions." Since no two regions will have the same industrial culture and tradition, it is important to recognize and assess various approaches to co-operative development when looking for new ideas. Caution in applying the lessons of Mondragon to Canada is required also because Mondragon is truly an experiment, and as such is in a constant state of change.

Certain theoretical and organizational principles inherent in the Mondragon system appear to be broad in potential application. By examining such systems as Mondragon, features might be identified and successfully adapted to other regions. As what may be our best example to date of a successful, large scale system of co-operatives, in the context of a diverse market economy, Mondragon offers a unique opportunity to learn from practice and to form broad theoretical guidelines which may prove useful in a variety of contexts.

1.3. Scope

The choice to analyze the Mondragon experiment from the perspective of the Canadian experience in co-operative development precludes detailed investigation of the many important institutions that make up the Mondragon model. The discussion provided in this thesis is confined to a description of the Mondragon co-operative model, an assessment of the interaction between the various Mondragon co-operatives, an analysis of how this interaction continues to evolve, and a consideration of the implications which Mondragon's inter-institutional relationships hold for co-operative development in Canada.
Emphasis will be placed on the Mondragon complex as an organic system, rather than on the operation of its individual components.

1.4. Approach

The thesis began purely as a case study of co-operative expansion at the Mondragon Associated Co-operatives. As research progressed, it became necessary to broaden the potential application of the study by focusing upon the Canadian co-operative tradition. The co-operative experiences of some other countries as well as literature on the ideology of co-operative movements were studied in order to develop an analytical framework for evaluating co-operative development planning.

Data for Mondragon were collected through a variety of means, including literature reviews and research of official Mondragon publications, along with telephone and in-person interviews. Information was also obtained through on-site field research in Spain. During April, 1990, I had the opportunity to participate in a study tour of the Mondragon Co-operative complex. The tour, the fourth of its kind, was organized and led by Greg MacLeod of the University College of Cape Breton. The tour included visits to a number of Mondragon co-operatives and first hand siting of the workplaces, the Caja Laboral Popular (Credit Union) and several educational and research institutions. A field research visit to Valencia was included, to examine a co-operative system more recently set up on the Mondragon example. In addition, the tour included personal interviews and discussions with influential members of the Mondragon system. Group discussions were conducted with Jose Maria Larranaga Bolinanga, Director of Education at Ikasbide (the
Management Training Centre at Mondragon), Javier Erdocia, Secretary General of the Mondragon Co-operative System, Jesus Larranaga, one of the five founders of the Mondragon co-operatives and currently a Board of Directors member of the Mondragon Co-operatives, and Jose Miguel, Director of Ikasbide.

1.7. Thesis Organization

The remainder of this thesis will be organized as follows: Chapter 2 will examine conventional approaches to community and regional development, which have in many instances failed to address issues of local control over decision making and resource management, regional equality and employment security, and will argue in favour of a co-operative approach to community development. It will be argued that the co-operative method can assist in promoting greater forms of democracy, ensuring a more even distribution of wealth, eradicating lines of friction between employee and employers, and building more stable communities. Chapter 3 explores the benefits of creating systems of co-operatives rather than independent co-operative firms, focusing on the competing goals of organization versus autonomy. Chapter 4 will introduce the community economic development approach of the Mondragon co-operatives. Chapter 5 assesses the Mondragon approach to building co-operatives. By examining the decision-making structures at the primary level of the Mondragon co-operatives, it becomes possible to gain a perspective of the ideological priorities of the member-workers. Chapter 6 concentrates upon the co-operative support organizations which bind the Mondragon community together. Chapter 7 provides a discussion of the different levels of participation in the co-operatives. Chapter
8 discusses the development strategies utilized by the leaders of the group, noting their potential advantages and disadvantages in light of the Canadian experience and the desire of co-operators to manage their own affairs from the bottom up. Implications for alternative institutional arrangements for Canadian co-operatives are then proposed in the final chapter, along with a summary of the major conclusions of this study.
CHAPTER 2
THE CASE FOR CO-OPERATION

2.1. The Co-operative Option

A major argument in this thesis is that co-operative community development has the potential to reduce or eliminate many of the problems created by conventional business practice. On both ethical and practical grounds, co-operators have argued their position ever since the establishment of the Rochdale co-operative in the early 1800's. Although worker co-operatives have failed to impact the economy as many had hoped, there has since remained a small but devoted membership world-wide.

2.2. Political Democracy

In many western countries, including Canada, there has been much progress in bringing democratic forms to political systems. Governments frequently consider the 'public will' in decision making processes, because governments can be removed from political power. Yet, as George Melnyk and Jack Quarter (1989) maintain, there are "still other facets of our society where the popular will is inconsequential to decisions that are taken":

The vast majority of workers in the Western democracies lack even the most elementary voice in the decisions that affect the business that employs them. In part, this is because they are not owners but employees who are hired by management representing owners.(preface)

Important decisions in private corporations are made by those individuals, whether locally or foreign based, who control the investment capital of the firm. Individuals, alone or collectively, who provide the capital, regardless of their social interests in the workers'
community, may own the business and choose the decision makers who will influence the local economy.

By contrast, worker co-operatives, with worker-owners who elect a board of directors and thus have a more direct influence in major policy decisions, bring democracy to the workplace. A primary social principle of producer co-operatives is that the workers who are involved and affected by a business make the important decisions. Democracy is thus brought to the workplace and, theoretically at least, there are spinoffs of democracy in the wider community.

A basic co-operative economic principle is that ownership and rights to profit are earned by work or other active participation in an enterprise. Capital is necessary for any enterprise, but while capitalists hire labour and gain profits, co-operatives rent capital and the members earn profits through their participation. Members in a worker co-operative have rights similar to those of citizens in a political democracy, via the right to participate in the decision making process.

Furthermore, worker co-operatives promote greater forms of localized control over local decisions. The right to vote is accorded only to those who work in the enterprise and who therefore live in the community. Thus, decision makers generally share a greater stake in their community’s welfare than they likely would if they were outside stock holders or even hired managers from outside the community. Regardless of the individuals’ property holdings in the co-operative, each member has one vote to exercise at general meetings, elections to the board of directors, and other fundamental decisions of the co-operative.
2.3. Economic Democracy

Co-operatives promote greater economic democracy as well because of the workers' right to own their full individual and collective labour value. The right to profit is the right to share in any year-end surplus (profit) and the responsibility for any year-end loss of the enterprise. This right to profit is accorded to workers because they work there, not because they have purchased the rights. (Fleckenstein, 1992:62)

Member rights sets the co-operative apart from conventional capitalist firms. Membership rights are transferable property rights attached to the shares of stock. The shares may be sold to whomever can afford to buy them, and the shareholder is generally otherwise not connected with the company. Since the votes and profits are distributed on a per-share basis, shareholders in an ordinary corporation will often have the number of votes and portions of the profits equal to the number of shares owned. (Ellerman, 1989:15)

2.4. Worker-Employer Divisions

George Melnyk (1989) contends that:

In the economies of the world, whether they be capitalist or socialist, there exists a basic division between the employee and the employer, no matter who the employer is -- individual conglomerate, or the state. (p.192)

Indeed, Jack Quarter and Jo-Ann Hannah (1989) point out that in a conventional enterprise "the relationship between workers and owners is not overly harmonious and is often very impersonal."

With the exception of small businesses where the owner participates actively in the enterprise, workers and owners deal with each other through intermediaries, that is, managers appointed by the owners and labour representatives of the workers, each of whom tries to uphold the interests of their respective group. This
arrangement often results in a lack of commitment from workers to the plant that employs them. (p. 79)

Corporations attempt frequently to address the problem of worker alienation through the use of techniques such as profit-sharing, bonus plans, and token involvement of employees in decision making. Particularly Japanese corporations appear successful in building worker loyalty. And, as Quarter and Hannah maintain, it would be "cavalier to dismiss as cosmetic" all of these techniques. In essence, worker alienation is a potential problem regardless of the type of ownership. Still, evidence suggests that worker alienation is much less of a problem in cases where people are the owners of the enterprise where they are employed. Workers, as owners, elect from their own ranks their Boards of Directors, hence eliminating the inherent conflict between the interests of the shareholders and those of the workers. In turn, fewer supervisory positions are needed in the co-operative model. (Quarter and Hannah, 1989: 79)

2.5. Community Building

Traditional forms of regional development have, to varying degrees, centred upon the classical economic belief in market equilibrium. Based upon supply-demand relationships with little regard for the social, political, and in some cases even economic needs of many communities, these strategies have been particularly detrimental to peripheral regions. Owners of conventional corporations often lack adequate commitment to employees and their communities. As Quarter and Hannah (1989) maintain:

Owners, particularly the shareholders of mature corporations, generally lack a commitment to their employees or to their employees' community. Decisions about maintaining and developing existing plants are made on the basis of
corporate interest (ie: investment decisions) not from the viewpoint of a community or its employees. (p.79)

And while welfare state initiatives have been designed to alleviate some of the more negative consequences of market allocations, they have for the most part tended to provide only short-term, piecemeal solutions. Hence, increasingly planners are seeking new, community-based methods for fostering community development.
CHAPTER 3
A SYSTEMS APPROACH TO CO-OPERATIVE DEVELOPMENT

3.1. Proactive versus Reactive Approaches

A major difference between the Canadian co-operative tradition and the Mondragon approach is that in Mondragon development is, in ideological terms, both 'top down' and 'bottom up.' From the initial market analysis to the establishment and maintenance of a co-operative business, the planning process is coordinated by the business consultants of the Associated Co-operatives at Mondragon, in conjunction with the leadership of the new enterprise. At the same time, the leadership at Mondragon are held accountable to the workers in the individual co-operatives. The Canadian experience, by contrast, has been almost entirely 'bottom up', or populist. The initiative for planning new enterprises has come from workers who seek the assistance of consultants only if they can afford to do so. The Canadian consultant's role, meanwhile, is reactive, in response to the proposals of worker-owners. Primary financing also comes from workers, with small loans from banks, credit unions and private investors.

This is not to say that the Canadian co-operative movement is devoid of lobbying efforts or inter-co-operative integration. Collectively, many Canadian co-operatives have attempted to promote the interests of Canadian co-operatives as a "third sector" of the economy. The National Task Force on Co-operative Development (1984) was formed to reflect upon issues of co-operative development and expansion across the country and, as noted by Laycock (1987):

As the Task Force Report made abundantly clear, the point of the reconsideration (of co-operative relations with Canadian governments) was to ensure that
Canadians could benefit more fully from co-operative enterprises and values at a time when the central challenge before Canadians is how to make our economic and social institutions more participatory and responsive to human needs. (p.4)

In 1984 the Task Force predicted that co-operative growth was "an idea whose time had come." (cited in Laycock, 1987:5)

3.2. Canadian Co-operatism

Nevertheless, the predominance in Canada of workers as planners and the dominance of workers shares in financing has meant that most worker-owned businesses are small, underfinanced and poorly planned operations, often with little chance of success. Canadian worker co-operatives have been developed primarily by people less interested in starting just another business than in demonstrating alternative forms for organizing and maintaining the workplace. As Quarter (1989) contends, the independence of these co-operatives may "satisfy the social needs of members, insofar as they alone can shape their own house," (pp.53-54) but economic success does not automatically follow. Small independent co-operatives, financed and developed by groups of workers, create a type of business which may have meaning to the individuals involved, but lacks any significant, enduring impact on the overall economy. Many Canadian co-operatives are "marginal businesses with the members either working part time because of low revenues or working irregularly because their service is seasonal." (Quarter, 1989:54) Frequently they lack resources and, therefore, must draw small starter salaries. Lack of capital, weak marketing, minimal planning, and the isolation of each enterprise result frequently in high failure rates and low earnings. (Quarter, 1989:54)
With few exceptions, Canadian co-operatives have been directed by individuals "suspicious of developing close relationships between their organizations and governments." (Laycock, 1987:19) Hence, for many co-operators, any involvement, including policy development for the state or co-operative involvement in political activity is only feasible to resolve short term crises. Political neutrality is a principle traced back to the Rochdale pioneers. In striking comparison, capitalist firms perceive their relations with political bodies as crucial to their ability to function in the Canadian environment. (Laycock, 1987:20)

Capital is a fundamental problem in setting up new Canadian co-operatives. Co-operators initially lack money to pay consulting firms. Consultants in capitalist countries, meanwhile, do not generally encourage worker ownership. Hence, Quarter (1989) argues that resource groups specializing in co-operative development are required:

Unlike conventional consultants, who are detached from the enterprises they assist, the members of resource groups enter into a symbiotic relationship with worker-owned enterprises, taking a leading role in their development, a role that in turn becomes the raison d'être for the resource groups. In other words, resource groups are an integral part of what they are creating. Initially, at least, they provide a new enterprise with such key components of entrepreneurship as business planning and market and financial analysis. (p. 34)

Indeed, as Quarter (1989) maintains:

Start-ups of worker co-operatives have gone hand in hand with specialized 'resource groups' committed to their development. Resource groups provide an infrastructure consisting of advocates and technical experts, and they assist in assembling the financial package -- the lifeblood of any new business. (p. 33)

Even when co-operative members seek the services of resource groups, however, the resource groups themselves often lack capital to provide ongoing support to the co-operatives. In most cases, external funding from private and government sources is needed
for consultants or resource groups and co-operators to earn acceptable salaries. Still, the consultants and resource personnel often draw insufficient salaries, a situation which can be sustained only temporarily.

In addition, despite the volume of worker co-operatives throughout Canada, "the interconnectedness that signifies a movement is lacking." (Quarter, 1989:36) And co-operative federations in Canada tend to be unifunctional institutions, with interests only in particular sectors such as housing or banking. Hence, although Canadian co-operatives appear to perform at least to the standard of small privately-owned enterprises in similar circumstances, at the same time:

The independence of worker co-operatives has denied them economies of scale in marketing, purchasing, and support services -- economies that reduce the risks of failure in a competitive market."(Quarter,1989:36)

According to Quarter, "the impact of this structural weakness should not be underestimated for either existing enterprises or the development of new ones."(p.37) One challenge, therefore, is to create an approach to development which will "assist the worker co-operative movement to overcome its marginal status."(p.53)

To significantly affect the economy, co-operative movements require qualified resource personnel, capital and ongoing support, in much the same way as do large conventional firms and their subsidiaries. Co-operative movements thus need:

...a proactive approach to development whereby professional planners in development groups identify markets for prospective enterprises and, in partnership with co-operative entrepreneurs, carefully plan the start of a new business...(Quarter,1989:53)

Quarter (1989) maintains that without resource groups worker co-operatives would be established at a much slower rate, that "evidence from virtually every country with
significant development in worker co-operatives suggests that resource groups accelerate the pace of development." (p.33)

3.3. A Co-operative System

In order for co-operative development to be wide-spread in any country and for new co-operatives to survive, a system must be in place to provide sources for entrepreneurship, capital and ongoing support. Quarter (1989) therefore contends that the stability of worker co-operatives would be greatly secured by establishing "systems of companies rather than concentrating on isolated enterprises:

The argument in favour of a systems approach is based upon the success of the approach in areas such as Mondragon, and on the relative failure of independent, isolated co-operative enterprises. (pp.35-36)
CHAPTER 4

THE MONDRAGON APPROACH

4.1 The Mondragon Approach

The Mondragon approach to co-operative development, an organic, holistic approach, signifies the placing of integrated parts to make up an organic whole, upon which the parts are dependant. As Greg MacLeod (1989) contends:

No part of the Mondragon experimental complex exists on its own. It is an organic network of parts and pieces with roots deep in the local community, which nourish and support each other. That philosophy is exportable, though the mechanical bits and pieces of the system may not be.(p.187)

4.2 The Beginning of the Mondragon System

Throughout their history, the Basque people have developed various co-operative economic activities, including local communal work, industrial co-operatives, consumer co-operatives, agricultural labour leagues and fishermen’s guilds. In the years leading up to the Civil War of 1936, both the social-anarchist positions and the Basque social christianity movement promoted and backed co-operative activities.(Caja Laboral Popular,1986:13)

The foundation of the Mondragon co-operatives owes much to the work of a Catholic Priest, Don Jose Maria Arizmendiarrrieta (usually shortened to Arizmendi), an expert on the Church’s social doctrine with a profound yet pragmatic vision for improving the social order of the Basque community. When Arizmendi was sent to Mondragon in 1941, the town was a community of 8000 people, economically depressed and suffering political and economic oppression following the Republican defeat in the Spanish Civil
War. Arizmendi concluded that Basque workers required technical training if they were to improve their economic, political and social condition. In 1943, he and his group of students persuaded one-quarter of the town’s residents to contribute to the foundation of the Mondragon Technical College, which combined professional-technical training with social doctrine. (Jose Maria Larranaga, 1990; Caja Laboral Popular, 1986:13)

Arizmendi taught that the problems associated with labour and capital could be alleviated if workers owned and operated their own workplaces democratically, in solidarity with the local community. According to John Cort (1982):

What he (Arizmendi) himself taught the students, besides an emphasis on competence and an impatience with theory divorced from practice, was the social teaching of the church, including that passage from 'Quadragesimo Anno' that encourages partnership arrangements whereby 'wage earners are made sharers of some sort in the ownership, or the management, or the profits.' (p. 370)

Arizmendi’s students generally agreed with him that employees should have a share in the profits they generated. In 1956, when five of his students completed engineering school at the technical college, and had gained experience in conventional firms, they established the first of the Mondragon co-operatives, an electric stove manufacturing cooperative named Ulgor, an acronym for the names of the five founders. With a workforce of 23, Ulgor was founded loosely along democratic lines, and in 1959 adopted a formal co-operative constitution, largely written by Arizmendi. (Goyder, 1979:24; Larranaga, 1990:370; Cort, 1982:370; Gutierrez-Johnson, 1984:36; Jordon, 1982:29; Kaswan and Kaswan, 1989:9; Caja Laboral Popular, 1986:13-14)

Ulgor began with borrowed resources and a modest product (paraffin stoves). Like other producer co-operatives, it was established with democratic principles and a high
value placed on the dignity of labour:

Its (Ulgor's) creation was aimed at establishing a modern democratically run company, bearing in mind the 'aim of the members of the company that manual labour should enjoy the prerogatives inherent in its dignity, by means of the structural subordination of the other necessary elements in all productive processes.' To do this it would become a Co-operative company, since amongst all the legal company structures envisaged by Spanish legislation this most adequately met with the aim of the founders.(Caja Laboral Popular,1986:14)

The founders of Ulgor made the decision to begin small, with a technology they could manage, yet seeking an expansive process. For example, Ulgor paid an unusually high price for the permit to start operations, because under Spanish law that particular permit contained a clause enabling Ulgor to produce a large range of durable and intermediate goods. Ulgor could thus expand its production range without state approval for new permits each time a new product was developed, and Ulgor members could thus search continually for ways to expand production and employment. Ulgor sent scouts through Spain and Europe to find potential products and processes, purchased advanced European technologies, and introduced them into the Basque region. Administrative and managerial rationalization were also introduced, to co-exist with the co-operative structures in place.(Gutierrez-Johnson,1984:39)

Ulgor's success led to the formation of additional co-operatives for the manufacturing of machine tools and food handling equipment, and a consumer co-operative store. Essentially, Ulgor would choose a new product and then launch a new co-operative firm to carry out the operation. The new firm would encompass the same organizational principles as those of Ulgor, and organizational affinity made linkage formation natural and allowed the sharing of resources to achieve economies of scale.
In addition, by 1959 the producer co-operatives of Funcor and Arrasate, and the San Jose Consumer Co-operative had emerged. Their common problems included insufficient financing for further development, lack of social security (due to Spanish Law which held that co-operative members were self-employed and therefore ineligible for state assistance in social security), and a lack of co-ordination and technical assistance. Hence, together with Ulgor they decided to create their own environment in order to survive and expand in what they deemed as a "capitalist system hostile towards them in principle."(Caja Laboral Popular, 1986:14-15)

The four co-operatives responded by creating their own financial institution, the Caja Laboral Popular, in 1959. This Community Co-operative bank, discussed in more detail in Chapter 6, was established to provide loans, accounting services, and eventually research and technical assistance. The technical college, meanwhile, infused with Christian social teaching, was providing competent managerial personnel with social principles. (Larranaga, 1990; MacLeod, 1990; Cort, 1982:370)

4.3 Mondragon Today

The Mondragon co-operative complex includes a wide range of industrial co-operatives, including Spain's largest producer of refrigerators and stoves, one of Spain's major machine tool producers, and a wide variety of electronic and technologically advanced enterprises. Member enterprises include virtually every field, including agriculture, construction, housing, educational, consumer and service co-operatives, one of the largest chains of consumer stores in Spain, a social insurance and health service co-
The Development of the Mondragon Co-operatives has been remarkable, not only during periods of industrial expansion, but also during recessionary times. Following the 1973-1982 recession, for example, which caused the demise of a large number of industrial firms in the Basque region, approximately 178,000 workers were unemployed in the region, representing an unemployment rate which averaged approximately 18 percent. During the same period, the Mondragon co-operatives protected its 11,000 existing jobs and created 7,000 new ones, along with 37 new co-operative enterprises. Its sales increased at an average annual rate of 25 percent, and its industrial investments grew at an average annual rate of 15 percent. Similarly, in 1985, with a regional unemployment problem of more than 20 percent in the Basque region, the Mondragon complex added 366 new jobs. (Kaswan and Kaswan, 1989:10; Fleckenstein, 1992:62)

One of the most extraordinary of Mondragon’s achievements is its proven ability to create and sustain employment. Of the over 187 diverse enterprises, scattered throughout the Basque provinces, not one worker has ever been laid off, and there has been only one corporate failure, a small fishing co-operative which was dissolved in the 1950’s. (Cort, 1982:370)

A social commitment that Mondragon firmly retains is that of job creation and security. New co-operatives and jobs are being created continually. The Mondragon complex offers continual employment up to retirement age, and has never laid a worker off, but has moved workers to different areas of the complex when required. In 1989, the...
Mondragon co-operatives employed 22,000 worker-owners. (Fleckenstein, 1992:63; Whyte and Whyte, 1989:x) Mondragon factories function at a level equal or superior in efficiency to that of capitalist enterprises in the same area. Efficiency in terms of the use made of scarce resources has been higher, as well as the co-operatives’ growth record of sales, exports, and employment, both under favourable and adverse economic conditions. (Henk and Logan, 1982:126; Gutierrez-Johnson, 1984:36)

In addition, the social performance of the industrial complex of Mondragon is outstanding, according to many observers. Direct and indirect participation of workers is achieved through the co-operative structures of worker-ownership and one-member, one-vote decision-making. The co-operatives have filled the vacuum in health care, social security, education, and job creation left by the repressive Francisco Franco government. (Gutierrez-Johnson, 1984:36)

The consultant groups which do the planning for the Mondragon co-operatives, as will be discussed in Chapters 7 and 8, are the so-called second and third level co-operatives. Direct costs of development and consulting services are initially covered by the Caja Laboral and are later assigned to a new co-operative as an operating expense. Developing new co-operatives, which is costly, involves planning time for projects that prove to be non-feasible, hence, the full costs of development are not borne by a new co-operative.
5.1. The Model

In order to understand the dynamics of the Mondragon experiment, it will be necessary in this chapter to acquaint the reader with the structures of the individual co-operatives. At the same time, the dangers of doing so should be emphasized. Structures in an experiment such as Mondragon are continually changing to conform to a dynamic environment as well as to the perceived needs of the local population, and will therefore be extremely flexible. Weiner and Oakshott (1987) explain that Mondragon is:

...feeling its way and has no preconceived notions about the organizational structures, rules and legal forms it should adopt. Giving the most detained attention to these, keeping them under review, and not allowing them to ossify is part of the Mondragon tradition.(p.5))

Another danger in concentrating upon individual co-operative structures is a potential loss of focus on the organic nature of relationships in the co-operative system and the community. Examiners must avoid the perception that the individual components of the system equal the whole; the sum total of the parts are, as is the case in any community, greater than the whole. MacLeod (1989) maintains that:

No part of the Mondragon experimental complex exists on its own. It is an organic network of parts and pieces with roots deep in the local community, which nourish and support each other. That philosophy is exportable, though the mechanical bits and pieces of the system may not be.(p.87)
Mondragon is not merely an assortment of separate, independent enterprises, but a closely knit community of co-operatives. (Goyder, 1979:26; MacLeod, 1989:187) As will be seen in the following chapters, the Mondragon co-operatives are intricately connected to each other and to the community around them.

Yet, by providing a discussion of the decision-making structures of the individual co-operatives, we are able to examine the extent to which participation strategies and, hence, the co-operative values have been maintained at the individual co-operative level. It is then possible in subsequent chapters to determine the extent to which these same provisions have endured with the immense growth of the complex, and to thus gain more insight into the practical and even the ideological priorities of decision makers at the Mondragon complex.

Details will be primarily drawn from the Ulgor experience. As the first of the Mondragon co-operatives, Ulgor has been the focus of a wide array of literature, as it has been utilized as a standard co-operative model by the other co-operatives and is therefore strikingly similar in structure to most of the Mondragon co-operatives.

5.2. The Production Companies

The approximately 186 co-operatives that make up the production component of the Mondragon system can be divided into three broad categories: industrial co-operatives, agricultural co-operatives and service co-operatives. The industrial co-operative firms manufacture a wide range of durable goods, intermediate goods, capital equipment, and high technology electrical products. Items produced include items as diverse as kitchen
appliances, hydraulic equipment, surgical equipment, forklifts, furniture, and tool components. In addition, there are eight enterprises engaged in such agricultural activities as milk product processing, animal feed production, house plant operations, lumber product processing, fruit and vegetable processing, and cattle and pig breeding. Third, the services component of the production co-operatives includes four co-operatives which provide restaurant meals to factory workers, automated factory systems, maintenance services for computer systems, and sewage and water treatment facilities in and around the town of Mondragon. Together, the industrial, agricultural and service co-operatives make up about five percent of employment in the Basque region. (Fleckenstein, 1992:61-63; Phillips, 1991:38-39; Gutierrez-Johnson, 1984:36; MacLeod, 1989:6; Weiner and Oakshott, 1987:6)

There are three broad ways in which co-operative firms have become members of the Mondragon complex. First, there are the original co-operatives: Ulgor, Arrasate, and Funcor being industrial co-operatives and San Jose (now incorporated into Eroski, as explained in Chapter 6), a consumer co-operative. Second are those co-operatives which were originally established as capitalist firms and later joined the Mondragon complex and adopted co-operative structures. Third, the majority of associated members are those which were created by breaking away from existing member co-operatives, or were founded by the leaders of the Mondragon group in conjunction with new members who approached the leaders with a viable proposal for a new co-operative.

The individual production co-operatives range in size from a handful of people to over two thousand in a single co-operative. While most co-operatives bear striking
structural similarities to Ulgor, each varies in accordance with size, preferences and circumstances. (Weiner and Oakshott, 1987:6; MacLeod, 1989:5; Kaswan and Kaswan, 1989:9)

5.2.1. The General Assembly

Every worker-member of a Mondragon enterprise is a shareholder and is entitled to one vote at the General Assembly of that enterprise, regardless of the amount of individual capital contributions, seniority or wage level. Hence, all workers are members of a General Assembly, and it is impossible for non-workers to be members by virtue of capital contributions. This differs from traditional capitalist firms, whereby the person with the most capital is generally the one with the most voting power.

Each Assembly meets once per year, although special meetings may be held under certain circumstances (described below). The General Assembly has two main functions: to approve (or reject) the co-operative’s annual operational plan, and to elect replacements to the co-operative’s Board of Directors. (Jose Maria Larranaga, 1990; Cort, 1982:370; Kaswan and Kaswan, 1989:11)

In order to encourage worker participation in General Assemblies, many co-operatives ensure that meetings are held at convenient times, such as at the end of school years. In addition, if a worker misses a General Assembly meeting, he is sanctioned against voting at the next meeting of the Assembly. According to Jose Maria Larranaga, Director of Co-operative Education at Ikasbide (Mondragon’s Management Training Centre which will be discussed in Chapter 6), participation rates vary widely from
company to company. The large Fagor plants (discussed in Chapter 7), for example, average approximately sixty percent participation by workers. (Jose Maria Larranaga, 1990)

5.2.2. The Board of Directors

The Board of Directors, composed of between three and nine workers (depending upon the size of the co-operative), meets at least monthly to review and co-ordinate operations, and is in charge of appointing and judging the performance of the management. The Board also presents the co-operative's annual operational plans to the General Assembly for approval. (Kaswan and Kaswan, 1989:11; Cort, 1982:370; Caja Laboral Popular, 1986:20) Board members hold positions for a period of four years, with approximately 50 percent replacement each two years. The Mondragon regulations require more than one candidate for each seat, hence, there are never elections by acclamation. (Jose Maria Larranaga, 1990)

5.2.3. The Management

Generally comprised of one manager, the management is the executive body of the co-operative. The manager is responsible for all operating decisions of the individual co-operative. The Board and Assembly produce broad guidelines which must be followed, and offer advice to management, but the daily operation of the co-operative is the full responsibility of the management. The manager is appointed to a four year term by the Board of Directors. The Board is required to have at least three candidates for the position
of manager, although a manager is permitted to serve successive terms. (Jose Maria Larranaga, 1990; Gutierrez-Johnson, 1984:39; Kaswan and Kaswan, 1989:12; Cort, 1982:170)

As will be discussed in Chapter 7, for example, Mondragon's largest co-operative group, Fagor, consists of twelve legally independent member co-operatives. If an individual co-operative in the Fagor group requires a new manager, that co-operative will request the management of the other eleven Fagor co-operatives to suggest potential candidates for the position. If a viable candidate is not found in this way, the co-operative may request suggestions from other Mondragon co-operatives. When the minimum requirement of three candidates are named, one may be elected by the co-operative's Board of Directors. (Jose Maria Larranaga, 1990)

The chief preoccupation of the manager is the financial success of the co-operative. The manager makes decisions in all areas of the business, including buying, selling, appointments to department heads, and work assignments, subject only to the broad guidelines determined by the Assembly (discussed in Chapters 7 and 8) and the Board. In essence, the manager has similar freedoms and responsibilities as those which would characterize management in a conventional capitalist firm. The major difference is that management at Mondragon, although given full authority to carry out responsibilities without interference, is accountable at the end of the fiscal year to the General Assembly of Workers and the Board of Directors, rather than to outside stockholders who may be less concerned with the human elements inherent in running the business. In addition, if the co-operative worker-members are dissatisfied with the Manager's performance, they can initiate a special meeting of the General Assembly, with twenty percent of the
workers signing a petition. With the consent of the Board of Directors, the General Assembly then can dismiss the manager or demand a new operational plan. A fundamental problem at Mondragon, however, has been finding competent managers with a loyalty to co-operative organization. Replacements are not always easy to find, should a manager be fired. (Jose Maria Larranaga, 1990; Greg MacLeod, 1990; Caja Laboral Popular, 1986:20; Kaswan and Kaswan, 1989:11-12; Cort, 1982:370; Gutierrez-Johnson, 1984:39)

5.2.4. The Management Council

The Management Council is not an elected body, but consists of the heads of key departments within the individual co-operative firm. These departmental heads are appointed by the manager of the co-operative, not only to key positions within their departments but also to the Management Council. It serves as an advisory body to the Manager as well as a communications channel. As a consultive body, it advises the Manager on matters which affect the various departments and the co-operative as a whole. (Jose Maria Larranaga, 1990; Caja Laboral Popular, 1986:20-21)

5.2.5. The Social Council

One of the most innovative elements of the Mondragon co-operatives is the 'Consejo Social' or Social Council. Mondragon pioneers ascertained that the General Assemblies (the most conventional democratic form of worker participation in co-operatives) were insufficient to ensure conflict-resolution, particularly with Mondragon's division of labour between management and labour. The Social Council was thus created
as an elected, permanent advisory body for the expression of the collective preferences of workers as members, performing the functions normally performed by a labour union in a conventional corporation. It allows all workers to express their opinions on all major policy decisions of the firm. The Social Council concentrates upon a wide range of issues, including wage levels, working conditions, safety, community contributions, and other policy issues of concern to the co-operative. There are no economic incentives for serving on the Social Council. (Jose Maria Larranaga, 1990; Caja Laboral Popular, 1986:20; Fleckenstein, 1992:62; Kaswan and Kaswan, 1989:12; Gutierrez-Johnson, 1984:38)

Structurally, each department (electrical, marketing, personnel management, etc) of the firm elects a representative to the Social Council, which meets quarterly. The representative reports back to the department workers, listens to their concerns, and relays their concerns at subsequent Social Council meetings. As the Social Council members are chosen by the various departments and not at the General Assembly, there is a diversity of people elected. All workers, including members of the Board of Directors, are expected to meet at least monthly with their Social Council delegate in their shops or offices. The Social Council may place items of concern on the agendas of General Assemblies or Management Councils. (Jose Maria Larranaga, 1990; Caja Laboral Popular, 1986:20; Kaswan and Kaswan, 1989:12; Gutierrez-Johnson, 1984:38)

There is no legal obligation for a co-operative to establish a social council, and its importance and strength depend primarily upon the particular circumstances of each particular co-operative. In some companies, especially the larger ones, the social council is extremely important, not only as an initiator of policy but also as a crucial information
channel. In Ulgor, for example, the social council is extremely important in this regard, as the departments would be less influential with only the Board of Directors and General Assembly. Social Councils are also important instruments in making smooth transitions in technological change within companies. In small, low technology co-operatives the social council undertakes fewer tasks. (Jose Maria Larranaga, 1990)

The size of the Social Council is important in terms of its effectiveness. Ulgor, with 3000 workers, had a Social Council which expanded to eighty members. The Council became too cumbersome, and was later reduced in size to thirty members, now a maximum number commonly accepted in the large Mondragon co-operatives. (Jose Maria Larranaga, 1990)

5.2.6. The Audit Committee

The General Assembly also elects a supervisory-audit committee, sometimes referred to as the Account Control Board. This body is a three member group which reviews all financial activities of the co-operative to ensure that the firm is effectively managed. According to the Caja Laboral Popular (1986):

...its job basically consists of inspecting the accounts and any documents presented for the consideration of the General Assembly. They have a right to any information deemed necessary by the members. (p.20)

With the assistance of special support bodies (discussed in Chapter 6) or an accounting firm, the Audit Committee identifies potential problems in the financial management of the co-operative and requests the Board and Management to ensure their resolution. If problems remain unresolved by the appropriate bodies, the Audit Committee has the
authority to call a special meeting of the General Assembly. Moreover, as this is essentially an elected body, and may therefore lack the technical expertise to understand the implications of the vast sums of financial data, it has the assistance of the L.K.S. (discussed in Chapter 6), and its members participate in special personnel development courses at Ikasbide, Mondragon’s management training centre. Essentially, the audit committee allows for co-operative records to be open to the membership of the co-operative. (Jose Maria Larranaga, 1990; Kaswan and Kaswan, 1989:11)

5.3. Worker-Member Association

The link between the worker-members and the Mondragon Associated Co-operative system is formalized by means of a membership contract, in which the rights and obligations of workers are outlined. In essence, as will be seen in the following chapters, the worker-members are obliged to abide by the rules of association and in return are entitled to their part of collective ownership of the system, including a percentage of profits (in addition to wages) and the right to participate in the governance. The co-operatives are open to anyone with the requisite skills and training.

5.3.1. Becoming a Member at Mondragon

To become a worker-member requires two contributions: the first is personal ability, which is tested during a probationary period. The second is a capital contribution, which at present is the equivalent of one year’s wages for an unskilled worker, deposited into each worker-member account. (Javier Erdocia, 1990) This contribution is essentially a
statement of commitment to the co-operatives. The worker may borrow the money from the Caja Laboral Popular or arrange for a 'check-off', by which the contribution is deducted from his wages for a two and a half year period, with no interest paid by the member-worker. (Phillips, 1991:38; Jose Maria Larranaga, 1990; Kaswan and Kaswan, 1989:13; Caja Laboral Popular, 1986:21)

5.3.2. Advance Earnings

Advance payments or advance earnings are the sums which each co-operative pays to its workers for their work. Resembling the wages in a conventional firm, they consist of twelve monthly payments, paid at the end of each month, and two extra payments of equivalent sums made on the 15th of July and the 15th of December. (Caja Laboral Popular, 1986:23)

Payment received for work is not considered a wage, but an advance (anticipo) on the members' share of returns. As mentioned in one Caja Laboral Popular (1986) document:

They are called advance payments because they can increase or decrease according to the dividends (or negative dividends) that the co-operative pays out (or takes away) at the end of the year, depending on whether profits have been made or not. (p.23)

Salaries are never fixed absolutely. At the beginning of each fiscal year a figure is set which seems reasonable in light of anticipated earnings. This so-called elastic wage system is a no-lose situation financially for the co-operative. If the company makes less money, the workers acquire less money. Each year the company decides what the 'wages' will be, depending upon profits anticipated. (MacLeod, 1990; Weiner and Oakshott, 1987:5;
To determine the amount of individual earnings at the co-operatives, each member is allocated a job grade, in accordance with the general Mondragon formula which assesses criteria such as the importance of the position, the manner in which the worker responds to the demands of the position, and seniority. Throughout the history of the Mondragon co-operatives, the wage grade disparity provision has been expanded. The initial practice was to have no more than a three-fold difference in wage, from the lowest paid to the highest paid employee. At present, the wage scale is set at five to one, soon to be six to one as discussed in the last Co-operative Congress (discussed in Chapter 8). The lowest wage (number one on the scale) is currently the equivalent of about 800 Canadian dollars per month (Jose Maria Larranaga, 1990). For the most part the highest payment for work is not more than four and a half times the lowest, with the exception of managers, who may have 'exceptional responsibilities,' and longer than average working days. Management turnovers at Mondragon were considered too high because, with a shortage particularly of engineers and economists in Northern Spain, many competent managers were turning to higher paying conventional firms. Certain co-operatives have hired contract employees at higher wages still, but only on a limited time basis. The average entry level wage remains above the regional average for the Basque provinces, and the average wage for management is below the regional average (Fleckenstein, 1992:63; Jose Maria Larranaga, 1990; Phillips, 1991:38)
5.3.3. Capital Accounts and Pensions

Twenty percent of the capital stake which a worker contributes when entering the co-operative system (approximately 10,000 dollars) is placed into his "capital account" (with the remainder placed in the company reserve fund). In addition, fifty percent of the company's profits is divided equally into the capital accounts of each worker member, and the total in each account earns about 6 percent interest annually. Should the co-operative lose money in a given year, the capital accounts make up the deficits. Funds are paid into (or withdrawn from) the account each June and December, although workers are exempted from making up losses for their first six months of membership in the complex. Funds cannot be withdrawn from the capital account until the worker retires or leaves the co-operative system. There are provisions in place for co-operatives to share profits and deficits with sister co-operatives, which will be discussed in Chapter 6. On average, after twenty years of service, a worker receives approximately 100,000 to 120,000 dollars. (Jose Maria Larranaga, 1990; Kaswan and Kaswan, 1989:13; Caja Laboral Popular, 1985:21; Cort, 1982:370)

If a worker transfers from one co-operative to another in the system, the entry fee is not required and the worker retains the same passbook (capital account). An accord between the co-operatives ensures that the worker does not withdraw funds from the capital account in this event. In addition, should a worker quit a job at a co-operative and leave the system, the Caja Laboral Popular may keep the funds from the worker's capital account for up to five years. (Jose Maria Larranaga, 1990)
In addition to the capital accounts, each worker, upon retirement, is entitled to a pension which is equivalent to approximately 70 percent of his annual income. (Javier Erdocia, 1990; Kaswan and Kaswan, 1989:13)

5.3.4. Non-Member Workers

Approximately two percent of Mondragon workers are not members of the Mondragon co-operative system. This figure includes short-term contract workers who may enter the co-operative system for two to six months, to perform specific tasks, such as short term consultant work not requiring a full time staff. (For example, Mondragon has hired temporary employees to initiate a cable television system the Basque region) There are also non-member workers who are undergoing a probationary period before acquiring membership. In order to avoid conflict between members and non-members, the goal is to allow full membership in the system wherever possible. (Jose Maria Larranaga, 1990)

5.4. Co-operative-Community Association

The allocation of profits at Mondragon is governed partly by Spanish law on co-operatives and partly by Mondragon’s own provisions. (Caja Laboral Popular, 1986:21; Cort, 1982:370; Kaswan and Kaswan, 1989:13) While it is beyond the scope of this thesis to provide detailed analyses of the extent of the laws governing co-operatives in Spain, it should be mentioned that the so-called ‘social businesses’, which include co-operatives, are given certain financial benefits which other firms do not have, usually in the form of
tax incentives or grants. In return, social companies must meet certain responsibilities for
their communities. There are two obligatory funds in particular which have been provided
for by legislation by the Basque Government: the Obligatory Reserve Fund and the Social
Advancement Fund. A minimum of ten percent of a social company's profit must go to a
social advancement fund, and a minimum of twenty percent to a company reserve fund.
The social advancement fund is a flexible fund designed for "social purposes to benefit
the community." (Jesus Larranaga:1990) This ranges from providing textbooks to schools
to providing education to worker-members of the co-operative. The Reserve Fund,
meanwhile, is a permanent part of the company's equity and can never be withdrawn by
the employees. A typical division of profit for a Mondragon co-operative is 10 percent to
the social advancement fund, forty-five percent to the company reserve fund, and forty-
five percent to the capital accounts of the worker members. If a co-operative experiences
losses, fifty percent are made up from workers' accounts, and fifty percent from the
reserve fund.(Jose Maria Larranaga,1990; Caja Laboral Popular,1986:21; Cort,1982:370;
Kaswan and Kaswan,1989:13)

These features of profit allocation guarantee strong public support as well as a
larger pool of working capital than would otherwise prevail. In keeping with Mondragon
traditions from the time of Arizmendi's teachings, most (ninety percent of) funds stay in
the co-operative system, in capital accounts and reserves, to be used in social services and
the creation of more co-operatives.(Javier Erdocia,1990)

As will be noted in Chapter 6, combined with favourable state relations, a strong
community bank and educational institutions designed to assist the expansion and growth
of the co-operatives, the system is also capable of producing and maintaining an infrastructure which intertwines with and serves the associated production co-operatives, offering financial and managerial expertise as well as social services to them.
CHAPTER 6
THE SECOND LEVEL

6.1. The Support Co-operatives

Support co-operatives are those whose function is to offer concrete financial, social and managerial support to the base co-operatives. They were created because of a need for the co-operatives to confront the unavoidable problems of financing, social security and management. The primary function of most of the support co-operatives is to "promote, assist, and develop new and existing co-operatives." (MacLeod, 1989: 185) They include the Caja Laboral Popular (Co-operative Community Bank), L.K.S. (Lan Kide Suztaketa, formerly the Entrepreneurial Division of the Caja Laboral), Ikasbide (a Management Training Centre), Hezibide Elkartea (formerly the League of Education and Culture), Lagun-Aro (for social security), Ikerlan (a technical research centre), and Lankide Export (a promotional export company). (MacLeod, 1989: 185; Caja Laboral Popular, 1986: 37)

Each worker in a service institution is an individual member of the Mondragon complex, with the same rights and responsibilities as those in production enterprises. But these co-operatives are referred to as 'second level' or 'second degree' co-operatives because the 'base' or 'first level' production control the service co-operatives by electing their own members to the General Assemblies and the Board of Directors of the service co-operatives. Because it is the individual production co-operatives which they serve, the support co-operatives will have a General Assembly and Board of Directors composed of
fifty percent their own employees and fifty percent representatives of production co-

6.2. The Community Bank

The Caja Laboral Popular is of crucial importance to Mondragon’s success. Mondragon members admit openly that there would be no system of co-operatives at Mondragon if they had failed to build a co-operative banking system. Weiner (1987) suggests that:

The spirit of the whole movement is expressed in (the Caja Laboral Popular’s) Basque name 'Lan Kide Aurrezkia': Lan Kide translates almost exactly into the German 'Gemeinwirtschaft', or, roughly, an 'economy managed in the public interest.’ (p.4)

Indeed, the Caja has historically financed, assisted, advised and regulated the behaviour of the base co-operatives. Today the Caja has more than 164 branches in Spain, primarily in the Basque region but as far away as Madrid, and close to 3 billion dollars in assets. It is growing faster than any other bank or credit union in Spain. (Phillips, 1991:7; MacLeod, 1989:187; Whyte and Whyte, 1989:5; Quarter and Melnyk, 1989:12; Kaswan and Kaswan, 1989:13)

The role of the Caja was clear since its conception in 1959: to entrap local capital and invest in the creation of local enterprises for the development of the Basque region, which was suffering from high unemployment. Without resources of their own, the founders of the co-operative system at Mondragon asked for the financial backing from their community. The motto of the Caja was "savings or Suitcases", implying that either the community must support itself through this community development venture or
continue to invest in foreign banks and thus have to move away due to lack of employment. The co-operators were successful, partially because they managed to develop a concept of savings that was permitted by law to which no one had previously paid attention. It was called 'worker savings', and paid an interest rate of one-half percent above the one paid by banks and regular loan associations. (MacLeod, 1989:185; Jordon, 1982:28; Gutierrez-Johnson, 1984:37)

The Caja is the institution which historically enabled the co-operatives to take advantage simultaneously of the benefits of worker participation in decision making and economies of scale. It has also historically been the forum in which inter-co-operative policy was decided. Rules of personnel practice (such as wage disparities), as well as economic strategies, were set by the individual co-operatives, within the guidelines set until recently by the Caja Laboral Popular.

As mentioned above, the Caja began with the broad purpose of generating local capital for the creation of new enterprises. Hence, from the beginning there were two separate Caja divisions, the financial and the entrepreneurial. These divisions are legally separate second-degree co-operatives today, each with their own General Assembly and Board of Directors. (Quarter, 1989:35; MacLeod, 1989:185-186)

6.2.1. The Caja’s Financial Division

The internal structure of the Caja is similar to that of any base co-operative, with a General Assembly, Board of Directors, Management Council, Social Committee, and Audit Committee. As the Caja is essentially a second-degree co-operative, however, its
General Assembly and Board of Directors are of mixed composition, comprising fifty percent worker members of the Caja and fifty percent representatives of the base co-operatives. Caja Laboral documents (1986) point out that:

...in accordance with the spirit that urged the creation of the Caja Laboral Popular...the co-operatives are members of the Caja Laboral Popular ...this fact has marked the Associated Group’s organizational model as each Co-operative retains complete authority with respect to its own performance whilst sharing authority with the other Co-operatives and individual members with regard to the Caja Laboral Popular.(p.19)

The Caja tends to earn more profits than the other co-operatives, but Caja employees’ shares of the profit are limited to the average earned by all the associated co-operatives.(Kaswan and Kaswan,1989:13)

An objective of the Caja Laboral is to attract and channel capital into the co-operatives, by encouraging the establishment of new co-operatives. (Caja Laboral Popular,1986:39) The costs for developing new co-operatives at Mondragon is assigned to the new co-operative as an operating expense, but initially the Caja Laboral provides these costs if necessary. (MacLeod,1989:186) The Caja provides substantial interest reductions to co-operatives in difficulties and to new co-operatives. New co-operatives, for example, are initially charged eight percent interest annually on capital rather than the usual thirteen percent.(Kaswan and Kaswan,1989:13)

The Caja will provide loans of up to seventy percent of the capital funds required to set up a new co-operative business, with the balance coming from the members and perhaps a small state grant or loan. The new co-operative, in turn, must become a member of the Associated Group, through a formal contract of association, and must abide by the association rules.(Jordon,1982:29)
The Caja is a crucial linkage in the Mondragon complex. Historically co-operative movements in Canada and elsewhere have received the bulk of funding from outside sources, including non-profit organizations, private loans and government grants or loans. Frequently they have trouble generating sufficient funds to operate over a long term. However committed their employees, most co-operative movements have been critically short of capital. A historic example is the Rochdale co-operative, which received capital from outside sources, but in doing so was forced to share votes with capital shareholders, and thus lost worker control over its own operation.

6.3. Lan Kide Suzetaketa (L.K.S.)

L.K.S. is the reorganized Entrepreneurial Division of the Caja Laboral Popular, which now operates as an autonomous entity within the Mondragon complex. Its objective is to provide technical and entrepreneurial support to companies, particularly the Mondragon Associated Co-operatives, and to attract new member businesses to the group. With over 115 member-workers, L.K.S. resembles a consulting-accounting firm, and provides management, bookkeeping, marketing, and planning to member co-operatives as well as outside firms. The close monitoring role played by this institution has allowed for quick, effective responses to problems, and is a major reason for the minimal failure rates of member co-operatives. (Quarter, 1989:35; Phillips, 1984:40-41; Fleckenstein, 1992:62; Caja Laboral Popular, 1986:39) According to MacLeod (1989):

Its (L.K.S.'s) functions are three-fold: 1) to develop new co-operative enterprises; 2) to provide technical consulting assistance to members; and 3) to audit and monitor the financial operations of all members. (p.186)
L.K.S. employs experts in the fields of industrial business planning, plant engineering, stock control, quality assurance, land purchasing, urban planning, accounting, economics, and personnel administration. (Goyder, 1979)

There are several areas in which L.K.S. meets its objectives. The Economic Analysis Department, for example, undertakes macroeconomic studies of the Basque region as well as national and international trends in the economy. For at least five years before Spain considered entry into the European Common Market, this department had been analyzing the common market's potential impact on Mondragon businesses. It issues regular reports on most aspects of the Basque economy, and is currently studying changes in the world economy to identify four or five favourable areas of concentration. (MacLeod, 1989: 186)

In addition, the Auditing and Information Department collects, analyses and keeps permanent records of the commercial situations of all member co-operatives. The Industrial Promotion Department researches and locates new products and services, and collaborates in the promotion of new member co-operatives. This department, primarily responsible for assisting with the establishment of new co-operatives, is always in search of new ideas in such countries as Japan, Germany, France, Great Britain and the United States. About 30 proposals are analyzed per month, going through a filtering process to end up with about 10 percent of them. If an idea for a new co-operative is considered feasible and desirable, the process continues. A prospective manager and an advisor is chosen, and an intense feasibility study begins. The Caja must approve the plan for financial support, and the manager recruits a technical team from within the system.
The Intervention and Advice Departments concentrate upon those co-operatives (usually at the launch stage) which are in economic trouble or are not meeting their full potential. The Urban Planning and Building Department concerns itself with civil and industrial construction projects, promotes housing, and provides architectural and management services. The Agricultural-Food Promotion Department promotes new agricultural initiatives in the Basque region, studies the development prospects of existing ones, and lends technical and entrepreneurial advice to these agricultural co-operatives. A recent objective of this department has been to link forest production to the retail market, using planning and technology. In essence, these departments are all concerned with monitoring the performance of all the member co-operatives, controlling the admission of new ones, and spotting opportunities for starting new ones. (Caja Laboral Popular, 1986:39; Quarter, 1989:35; MacLeod, 1989:186)

6.4. Hezibide Elkartea

Previously the League of Education and Culture, Hezbide Elkartea has its beginnings in 1948 under the direct influence of Arizmendi, with the purpose of coordinating and stimulating educational activities among co-operatives. It became a co-operative in its own right in 1964. (Caja Laboral Popular, 1986:39)

Hezibide Elkartea incorporates teaching centres of various educational levels for co-operative firms, private economic organizations, and public state institutions. In the academic year 1984-85, Hezibide was providing education from the day care to the university levels, to 6,201 regular students and an additional 2000 students who took part

There are three co-operative centres at the university level: the Don Jose Maria Arizmendi-arrieta Eskola Politeknikoa (EPP), in the town of Mondragon, offers technical training courses. The EPP concentrates primarily in engineering streams such as computer engineering, production engineering, industrial electronics, and microelectronics. The Escuela de Tecnicas Empresariales (ETEO) covers university business courses. The Irkasle Eskola provides training courses for Basque speaking teachers. (Caja Laboral Popular, 1986:45)

6.4.1. Saiolan

The EPP has recently, as part of its long-term plan, established 'Saiolan', in order to create a technologically higher level of studies. Saiolan specializes in the creation of new enterprises by implementing completely new ideas for commercial pursuit. The regular Saiolan staff begins by concentrating upon a variety of new ideas and concepts, from which a few potentially feasible ideas are selected and subsequently streamed through a testing and implementation program. Each program lasts approximately 18 months, during which time a team of 'idea' promoters are chosen and a three phase plan is initiated, taking the idea from theory to practice. Saiolan, in essence, has a dual role: the first is the gathering of information on new, applicable technologies, such as lasers, holography, and bio-technology, and turning theory into practice: the second is to form cadres of highly competent managers who understand the various technologies. Since
1983, about a dozen new companies have been established in this way. Some become part of the Mondragon Co-operative System and some operate on their own, outside of the co-operative system. An example of a recent company set up is a laser company which has recently become part of the Fagor group (discussed in Chapter 7). (Caja Laboral Popular, 1986:45)

6.4.2. Alecoop

Alecoop is another important institution related to Hezibide Elkartea. Incorporated in 1970, Alecoop provides students from the EPP, the ETEO, and the Irkasle Eskola with direct co-operative work experience in conjunction with their theoretical studies. By 1984 Alecoop had 337 student members working part time and had annual sales figures of 869.8 million pesetas, primarily through supplying teaching materials and components for the domestic appliance sector. While the turnover is large, as only students may be members of Alecoop, the co-operative not only finances the studies of students but also gives them experience in preparing them for work in the co-operative system. (Caja Laboral Popular, 1986:45-46; Phillips, 1991:41; Fleckenstein, 1992:63)

6.4.3. The Ikastolas

Ikastolas, or Basque speaking schools, associated with the Mondragon complex had by 1984 a total population of 35,000 students in the four Basque provinces. These Ikastolas were triggered by the anti-Basque policies of the previous Franco regime in Spain, which made the Basque language illegal to speak outside of the home. Now that
the state has abandoned its anti-cultural approach, the extent of future co-operative involvement in this type of education remains to be seen. The schools are currently in the process of becoming state run schools, as the government of the region now has more favourable policies. (Jose Maria Larranaga, 1990)

6.5. Ikerlan

Ikerlan, a technological research co-operative, was created in 1977 with the backing of the associated first-level co-operatives, the Caja Laboral Popular and the Polytechnical School. This second degree co-operative responds primarily to the need of the already existing co-operatives for applied research. This co-operative specializes in robotics, microelectronics, and computer assisted design, and has contracts with co-operatives as well as state and private companies, and by 1982 had begun to receive support from the Basque government. (Kaswan and Kaswan, 1989:11; Caja Laboral Popular, 1986:42; Fagor, 1990:3) According to Caja Laboral Popular (1986) statements:

Ikerlan's activities are centred on the field of research aimed at the acquisition and development of technology and its application to industrial products and processes with the fundamental aim of being of service to the industrial sector and to any other body or institution which may solicit its aid to resolve their current or future problems in the technological areas in which they are involved. (pp.42-43)

There are four broad areas in which Ikerlan develops its research. The first is electronics, which comprise Industrial Instrumentation, Microcomputing, Industrial Automation, and Tests and Services Departments. Second, there is the Mechanics field, with includes Computation and Design, Thermal Services, and the Technical Office and Prototype Workshops Departments. The third, Computer Science, comprises the Software
Development Department and the Computation Centre. Finally, the Productions Systems field includes Organization, CAD/CAM, and Robotics and Transport. (Caja Laboral Popular, 1986:42-43)

In this way, Ikerlan has carried out over 100 concrete research projects for companies and is continually approached for services. For example, this co-operative has already developed its own industrial robot and is testing how it can be adopted to the particular needs of Mondragon's co-operative manufacturing companies. Ikerlan provides industrial services such as the development of industrial prototypes, advice, computations, seminars, and short training courses. The support co-operative also "takes part in national as well as international research projects, with companies such as Eureka and Esprit." (Fagor, 1990:5) By the end of 1984, Ikerlan consisted of 94 staff members, including 54 full-time worker members, 12 part-time Polytechnical College Scholarship students, 6 part-time Polytechnical College teachers, and 22 part-time students from the Alecoop Co-operative. (Caja Laboral Popular, 1986:42-43)

6.6. Ikasbide

Ikasbide was created in 1984 as a business co-operative to fill a series of gaps detected in managerial training in the areas of technical skills, co-operative management practices and Basque language training. Because of the decision-making involvement of large numbers of worker-members, and a knowledge of how the Associated Group operates is vital to success, Ikasbide is responsible for courses for Boards of Directors, Social Councils, Audit Committees and Management. To bring existing management up to
date with managerial methods, technical training for management is undertaken jointly by L.K.S. and Ikasbide. An attempt is being made throughout the Mondragon system to promote the use of Basque language, hence, Ikasbide offers Basque courses specifically to Social Committees, Managerial personnel and Board of Directors members. (Caja Laboral Popular, 1986:44)

In addition, in accordance with studies which determine the potential needs of the co-operatives in the long term, Ikasbide offers post-graduate training courses for post-graduates (graduates of outside universities) who lack professional experience but who desire to become co-operative members, to give them technical and entrepreneurial experience and in turn enable them to carry out management activities within one of the Associated Group’s co-operatives.

6.7. Lankide Export

Another important second-degree co-operative is Lankide Export, which was created in 1980 to help the associated co-operatives to successfully compete in the export market. During the Franco era, Spain was heavily protected from outside competition, and Spanish companies such as the Mondragon system were able to dominate the local market. This has changed with new Spanish policies, the emerging European Common Market, and Spain’s entry, scheduled for completion in 1992. According to the Caja Laboral Popular:

For the co-operatives, exporting competitively, far from being a mere complement to sales in the domestic market, is an unavoidable requirement for their own survival in a future which seems to be irremediably tense and demanding. For this
reason, Lankide export was created in 1980 as a means to support financially the exports of the Associated Co-operative Group. (Caja Laboral Popular, 1986:43)

The Caja Laboral Popular’s publication, *The Mondragon Experiment*, outlines seven specific mandates of Lankide Export:

1) To create and participate in the capital of commercial companies located abroad in order to promote products manufactured by Mondragon co-operatives.

2) to create its own commercial structures and branch offices abroad and to sell products manufactured by the co-operatives.

3) to carry out trading and counter-trading deals on behalf of the co-operatives.

4) to help the co-operatives by providing expertise in export management, and in gaining markets in 'difficult' or in 'geographically distant' areas.

5) To participate in international fairs (for tenders and bidding) for deals in which all products requested come from the various Mondragon co-operatives.

6) To carry out technology transfer deals in the form of manufacturing skills and knowledge, sales of industrial processes, or products.

7) to participate as a co-investor in mixed manufacturing companies.
6.8. Lagun-Aro

Because Mondragon workers are considered by the Spanish state to be self-employed, and thus ineligible for Spanish social security, Mondragon co-operatives formed their own health and welfare institution. Lagun-Aro is the second-degree co-operative which manages pension funds for the associated co-operatives. It also has a large industrial medical department that specializes in worker safety and health, and helps co-operatives to adopt safety standards.(Jordon, 1982:29; Kaswan and Kaswan, 1989:11)

Lagun Aro was in the original structure a branch of the Caja Laboral Popular, responsible for social standards in the co-operatives. The need for social security was one of the factors which led to the creation of the co-operatives and to the Caja Laboral Popular. In its first phase, the social department covered short term social needs of members, while the Autonomous Workers’ Friendly Society was established to respond to such areas as pensions and financial death services. In 1969, the Autonomous Workers Friendly Society and the social department of the Caja were merged into one co-operative, known as the ‘Friendly Society for Social Provisions’ and named Lagun-Aro.

The funds necessary to ensure adequate services to worker-members comes from the co-operative members themselves. The amount paid monthly by each individual member depends upon both fixed and variable quotas, based upon an individual’s advance payments. The fixed quota ensures that all member families receive medical assistance and death expenses. The variable quotas cover benefits such as temporary work
incapacity, pensions, widow’s pensions, and unemployment, which are proportional to a member’s advance payments. (Caja Laboral Popular, 1986:40)

The company medical service includes a Clinical Laboratory Department, responsible for biological, bacteriological, and water analysis in the workplace. The Psychology Department collaborates with other doctors to ensure appropriate medical treatment for workers. The Safety and Hygiene Department increases safety at work by lessening the number of accidents. (Caja Laboral Popular, 1986:41)

In April, 1982, Lagun-Aro Insurance, a separate member co-operative, was created to manage all the various types of insurance. Caja Laboral Popular and Lagun-Aro have 50 percent shares respectively in the capital of Lagun-Aro Insurance, which by 1986 amounted to more than 160 million pesetas. (Caja Laboral Popular, 1986:42)

6.9. Eroski: The Consumer Link

Eroski, an integral component of the Mondragon Co-operative system, is a retail chain with over 265 outlets (over 98 owned by the Mondragon group and the others operating under franchise with supplies from the Eroski warehouse which largely promotes goods from the group’s production co-operatives). With annual sales of over 600 million dollars, and 75,000 regular customers, Eroski is the largest supplier of food in the Basque provinces and also sells clothes, shoes, appliances, and other items generally required by consumers, with much of the merchandise supplied by the Mondragon co-operatives. (MacLeod, 1989:6; Jordon, 1982:29; Kaswan and Kaswan, 1989:12)
The consumer co-operative was established in 1969, with the amalgamation of 9 consumer co-operatives, including a founding co-operative, San Jose. At the time, the nine co-operatives decided to merge to form one co-operative in order to avoid "the dispersion and multiplication of the decision making bodies that make consumer co-operatives an inefficient and split project." The individual stores in the Eroski chain are separate co-operatives in their own right, but function as a group, much like the zone groups which will be discussed in Chapter 7. (Caja Laboral Popular, 1986:31)

The Eroski chain is owned and governed jointly by consumers and employees. Consumers become members (There are now more than 130,000) by paying a membership fee of approximately one dollar. Each year, the consumer members and the worker members of individual Eroski stores meet separately in their own Assemblies to elect 250 members to the General Assembly of the chain. The 500 representatives then elect a Board of Directors which is composed of six consumers and six workers. The President, or Chairperson, is always a consumer, and the vice-President an Eroski worker. (Kaswan and Kaswan, 1989)

6.10. Support Co-operative Summary

These second Degree Co-operatives have in common the fact that they are governed not only by their own worker-members, but also by the base, or first level co-operatives which they serve. The Caja Laboral Popular, for example, is a crucial foundation, which has historically bound the co-operatives together and has increased many-fold its prospects for economic success.
Notably also, many of the second degree co-operatives are devoted to educational activities. As MacLeod (1989) contends, "Education was and is the foundation of the Mondragon experiment." (p.6) Several are devoted to the creation of new co-operatives, while others work with existing co-operatives to achieve more competitiveness and efficiency.

Technological innovation is ensured through an emphasis on technology in every part of the system. Mondragon’s aim is to use the latest and most appropriate technology available in the world. The primary institutional instruments promoting the use of technology are the research and development centres such as Ikerlan and Saiolan. As an indication of commitment to technology, the Fagor group (to be discussed in Chapter 7) made a 1990 contribution of 18 million dollars, or 3.25 percent of sales, toward research and development. (Jose Maria Larranaga, 1990)

As will be seen in the following chapters, the co-operatives benefit tremendously, particularly in an economic and social sense, from their contracts and associations. But at the same time they are subjected to more central control than is generally the case in co-operative movements. This control of the co-operatives, on the one hand, ensures the efficiency and productivity necessary to ensure economies of scale, and in many ways involves levels of authority which, although not absolute, can be compared with the lines of authority in many capitalist firms. The individual co-operatives at Mondragon have abrogated much autonomy. There is a strong commitment to education and training in the co-operatives. Formation orients the total complex to pull together and face challenges,
and consists of education and information at all levels of service. It is ensured through agencies such as Saiolan, Ikasbide, and the L.K.S.

As mentioned above, the Caja began with the broad purpose of generating local capital for the creation of new enterprises. Hence, from the beginning there were two separate Caja divisions, the financial and the entrepreneurial. These divisions are legally separate second degree co-operatives today, each with their own General Assembly and Board of Directors. (Quarter, 1989; MacLeod, 1989)

Since the early 1980s the whole Mondragon system has undergone, and continues to pursue, a major strategy of reorganization. Before that time, the Caja Laboral Popular operated "in many ways like the group headquarters of a decentralized private company." (Goyder, 1979) The member co-operatives retained some control over the Caja by electing fifty percent of Caja's General Assembly and Board of Directors from the membership of the associated co-operatives. At the same time, through contracts of association between the Caja and the members, and due to the Caja's firm control of capital, the bank held much financial and political power over the member co-operatives. Hence, in 1984, in order to give members more authority and responsibility over the coordination of the system, the Caja proposed the creation of a Congress of Co-operatives (discussed in Chapter 9), grouped along geographic and functional lines within which the Caja would be just another member. To further diffuse the power of the Caja, the entrepreneurial division was separated from the Caja, and turned into a separate co-operative called Lan Kide Suztaketa (L.K.S.), discussed below. (Quarter, 1989; MacLeod, 1989; Kaswan and Kaswan, 1989)
Initiating Businesses at Mondragon

As we have seen, the initiation of businesses at Mondragon is a highly structured process, and new co-operatives rarely fail. Preparation for starting a new co-operative can take up to five years. The first stage is to develop an idea for a potential product, and to prepare a development process. If a group of people in the region approach Mondragon officials to start a new co-operative, the first basic screening criteria are that the starting members know and trust each other, commit themselves to co-operative principles, have some skills to start a business, and want to participate in the often lengthy development process. (Kaswan and Kaswan:14) If these conditions are met, the prospective co-operative members must select one of their group as manager. The manager then works full time with an experienced staff person from L.K.S. First, they embark on a detailed feasibility study that includes consideration of available markets, the ecological impact of the enterprise and, most importantly, the likelihood that the enterprise would provide a significant number of new jobs - at least forty jobs within five years. If the prospects look promising, they prepare a business plan and present it to the bank and to the prospective members of the co-operative. If approved, the bank provides the necessary capital, the members commit their share of the investment, and the group formally organizes itself as a co-operative. The actual development of the business then begins. Half of the groups that start this development process complete it. (Jose Maria Larranaga, 1990)

Once established, a representative of the L.K.S. resides on the Board of Directors of the new Co-operative for two years, until it is deemed a fully developed co-operative enterprise. After that the co-operative must supply the L.K.S. with regular information,
and the Division will only interfere if the co-op is in potential financial difficulty. The new co-operative continues to rely on the Caja for Research and Development, centralized purchasing, market analysis and administration, and will be a member of the Caja Laboral and the L.K.S., with a voice in determining their Boards of Directors. (Jose Maria Larranaga, 1990)
CHAPTER 7

NEW LEVELS OF CO-OPERATIVES

7.1. The Different Levels

This chapter will examine Mondragon’s recent reorganization strategies, characterized by a greater level of interdependence between the co-operatives through the use of functional "zone" groupings at the second level, and a third level, the Co-operative Congress. These new levels of organization and power have essentially assumed many of the roles previously assigned to the Caja Laboral Popular. As will be seen, the second and third levels are elected, at the one level directly and at the higher levels indirectly by the elected members of the lower level co-operatives.

Zone groups can be distinguished from second-degree support co-operatives by the nature of their mandate. Like the support co-operatives, the zone groups are governed by the first-level co-operatives. But unlike the EPP, Lagun-Aro, Ikerlan and the other service institutions, the zone groups are not services, but simply a higher decision-making organization of first degree co-operatives.(Jose Maria Larranaga, 1990)

7.2 The Second Level

The second level of organization takes the form of a series of zone groups, which are normally a grouping together along functional lines. For example, those enterprises making refrigerators, washers, stoves and such have been organized into the Fagor group, even though each individual co-operative remains legally independent. In another zone, most of the
member enterprises may be producing agricultural and food products. By 1990 there were eighteen groups in the Mondragon system, each representing three to twelve member cooperatives. (Jose Maria Larranaga, 1990; Phillips, 1991:40) The zone groups allow the cooperatives to complement each other to a greater degree than was previously possible, due to common co-operative guidelines imposed by the zone onto the individual members. Rather than compete in the same general area, the individual co-operatives can better collaborate in management and services. A new line of products, for example, can complement those already in existence. (Whyte and Whyte, 1989:259-261)

FAGOR, the largest zone group, is comprised of 12 co-operatives, including Ulgor (the first of the co-operatives), which produces refrigerators, washing machines, stoves and dishwashers, Fagor electronica, whose products include television tuners, and rectifiers, Fagor Clima, which manufactures water heaters, heat pumps and boilers, and Arrasate, whose output includes electro-mechanical machinery and electric appliances. Fagor achieves sales which approximate 750 million dollars, 30 percent of which are from exports. It is the largest producer of home appliances in Spain, and has an overall market share in Spain of over 30 percent. Moreover, most of the Fagor products have been introduced into international markets. It exports to more than 70 countries, with most of its exports going to EEC countries, and participates in technological co-operation agreements in various branches of industry, with General Electric (U.S.A.), Hitachi (Japan), and many other companies. (Jose Maria Larranaga, 1990; Fagor, 1990:6; Kaswan and Kaswan, 1989:10; Fleckenstein, 1992:63)

Another example of a zone grouping is the Erein Agricultural-food group. Mondragon leaders believe that, despite the general abandoned state of the Basque agricultural sector, due
in part to the greater development of the industrial sector, the survival of a relatively strong primary sector is important in the search for an appropriate balance in the region. The nine agricultural co-operatives, involving areas as diverse as forestry, cattle raising and horticulture, make up the Erein group. (Caja Laboral Popular, 1986:30)

The creation of functional groups is based on the commercial and technological affinity of the individual co-operatives that operate in the same sector of the economy. In this way they are able to optimize commercial brands, and improve technical planning by realizing joint research projects, transfers of technologies, and policy agreements between member co-operatives. (Caja Laboral Popular, 1986:51)

According to Kaswan and Kaswan (1989):

Most of the individual co-operatives belong to groupings of from four to twelve member co-operatives. These often share personnel, marketing and other services and pool their surpluses so that the stronger co-operatives support the weaker ones. Because of this mutual support and the financial and technical assistance from the entrepreneurial group, failure is virtually impossible. When layoffs are necessary individuals are shifted to other co-operatives or supported at 80 percent of their salary until they are reemployed. (p.13)

The transferring of workers occurs mainly between co-operatives within the zone groups, as workers are more knowledgeable about operations within their groups. (Jose Maria Larranaga, 1990)

In addition, zone group members share profits and losses. Hence, during difficult financial times, particularly when a co-operative is just in the launch stage, workers can still make a viable living. For example, if one co-operative shows a loss of 20,000 dollars and the others in the group gain by 30,000 dollars, they will all average the losses and profits and divide the sum evenly among the individual co-operatives in the zone group. (Jose Maria
Larranaga, 1990) The zone group strategy also helps member firms to increase their profits. All the co-operatives in the zone group, for example, may use the same brand names. As an illustration, Jose Maria Larranaga (1990) explains:

A small co-operative, Radar, was doing poorly. They were producing pots and pans. They changed their name to Fagor when they joined the group, and sales went up enormously because people recognized the label. Trade mark is so important. For example, the bluejean trademark Levi will sell whereas the same jeans without the label will not. We try to unify so that we can have the same trademarks or names and sell more. (Jose Maria Larranaga, 1990)

Zone groups are also helpful because they enable the member co-operatives to make bulk purchases and thus reduce expenditures, and to invest in the marketplace with greater sums. (Jose Maria Larranaga, 1990)

7.2.1. Zone Group Assemblies and General Councils

The General Assembly of each individual co-operative enterprise in the group elects delegates to the General Assembly of the group. In all, there are 150 members in a zone group General Assembly. The role of the General Assembly here, however, is not to elect a board of directors, but to approve the general operating guidelines of the zone group. (Jose Maria Larranaga, 1990; Caja Laboral Popular, 1986:50)

The Board of Directors or 'General Council' for the zone group, which meets monthly, is composed of two members from each member co-operative. Each co-operative chooses from their co-operative the chairperson and another Board member to serve on the Zone Group’s Board of Directors. Hence, the Board of Directors is not chosen by the workers at the General Assembly but, rather, by the elected officials from the individual co-operatives. In Fagor, there are 24 members of the Group Board of Directors: twelve members at large
and twelve chairpersons from the individual co-operatives. The General Assembly is required to approve the group's general policy, economic budget, and organizational rules. (Jose Maria Larranaga, 1990; Caja Laboral Popular, 1986:50)

The Group Board of Directors chooses a General Manager for the Group, based upon the nomination of at least three candidates. As is the case at the first degree level, the General Manager for the Group is accountable to the Group Board of Directors and, ultimately, to the Group General Assembly. In addition, the managers of each individual enterprise form a Group Management Committee, which meets once per month and advises the General Manager for the Group. (Jose Maria Larranaga, 1990; Caja Laboral Popular, 1986:50)

7.2.2. Zone Group Authority

Although each individual co-operative is in many ways autonomous, each abrogates a degree of authority in order to be a member of the group. The zone group assembly, the group board and the group manager make group policies and decisions on matters which transcend the levels of the individual co-operatives, such as common wage guidelines, common brand names, advertisement, group purchasing of material, group marketing, and common investment funds. The group structure plays a major role in such areas as wage parities and common reserve funds. (Jose Maria Larranaga, 1990; Phillips, 1991:40-41)

Decisions made at the individual co-operative level which could impact the group must be approved at the group level. For example, if a co-operative proposes to allocate bonuses for members working overtime, the bonuses will affect the profits and losses of their company and, in turn, the shares of returns in the other co-operative members in the group.
Hence, the co-operative will refer the proposal to the group level, and the group must decide to either approve or reject the request for bonuses. (Jose Maria Larranaga, 1990)

The individual co-operatives of each group must adhere to the following principles: the establishment of special services, the transfer of staff from one co-operative to another, priority commitment to interco-operative supplying, should one co-operative need products produced by another, and the redistribution of net profits and losses. (Caja Laboral Popular, 1986:51)

The redistribution of net profits requires that all accounts and balance sheets be structured in a similar manner, all reserves be established through similar criteria, the reserves (obligatory by Spanish and Basque law) be established via similar criteria, and be subtracted from net profits, and a communal fund be established and maintained for the capital accounts and net profits of co-operatives. The co-operatives in the group must have a common wage rate. (Jose Maria Larranaga, 1990)

Profits as well as losses are averaged out among the group. It may be the case, for example, that one enterprise experiences an annual net loss. The other enterprises will make up for its losses so that the individual workers will not suffer. Of course, all member enterprises must submit to the advise of a central body which has the services of L.K.S. to analyze and ascertain certain necessary reforms when an enterprise is in difficulty. The economic role of this kind of structure is obvious. The group is a much stronger actor in the commercial world than each individual enterprise could be. (Fleckenstein, 1992:61; Jose Maria Larranaga, 1990)

A co-operative which chooses to violate a ruling at the group level, such as paying
its workers more than the agreed upon wage scheme, has only one recourse: to leave the group. Since this would also mean losing all of the many benefits associated with group membership, this is really not a viable option. (Jose Maria Larranaga, 1990)

7.3. The Congress

The third level of organization in the complex is that of the Congress, which first met in 1984. Before this time, the Caja Laboral Popular was the cement which held all the co-operative members together in a common structure. The Congress structure is the result of a period of self-examination which was triggered by the desire to prepare for the economy of the 1990s. Leaders in the complex perceived the need to develop a structure which could create new strategies to guide the entire complex. Even though all the companies and institutions in the complex were already interrelated and interlinked, it was considered necessary to develop a structure which would permit rapid decision making in strategic matters and which would at the same time be able to attain compliance and informed decision-making among the various components of the system. Leaders argued that particularly with the entry into the European Common Market, the need to make decisions more rapidly was urgent. For example, in Spain, the Mondragon group holds 33% of the market in refrigerators, yet in Europe the group holds only two percent of the market. (Jose Maria Larranaga, 1990; Phillips, 1991:41)
7.3.1. The General Assembly of the Congress

The General Assembly of the Congress is the most powerful component of the Mondragon system. It is composed of 350 delegates who represent all member enterprises in the system. The Congress Assembly meets once per year to approve the general operating plans and strategies for the entire system. (Jose Maria Larranaga, 1990)

Approximately half of the 350 members which make up the General Assembly of the Congress come as delegates elected by the General Assemblies of the first level and the service co-operatives. With the exception of some of the smaller grade schools, all co-operatives have at least one member at the Congress Assembly. The remainder of the Congress General Assembly is made up proportionally: the co-operatives with more workers have more delegates than those with fewer workers. (Jose Maria Larranaga, 1990; MacLeod, 1990)

7.3.2. The General Council of the Congress

The plans and strategies determined by the Congress General Assembly are carried out by the General Council, or third-level Board of Directors. The role of the Council is administrative. It gives policy direction and carries out the orders of the Assembly. Unlike the Boards of Directors at the first level, however, this body is not composed of elected delegates; its 21 members are made up of the managers of the 18 zone groups, and delegates from three special second-degree institutions (which each have a vote equal to a zone group): the Caja Laboral Popular, Eroski, and Ikerlan. (Jose Maria Larranaga, 1990)
7.3.3. Congress Authority

In essence, co-operatives at Mondragon are not merely subjected to the rules and obligations associated with the group or second-level of organization, but must also adhere to the authority of a third level, the Congress. Through the shift from the community bank to the Congress as a major unifying structure, there has been a natural shift of authority. The Congress now sets down the operational guidelines and the overall strategy for all the individual member co-operatives at Mondragon. Member co-operatives must abide by Congress decisions or leave the system. Undoubtedly, market pressures led to the creation of the third level. Jose Maria Larranaga (1990) comments that:

The General Council has to make executive decisions with regard to small co-operatives that are not functional, to decide what to do with them, whether to put them in with other co-operatives or let them disappear. There has to be a strong body in the General Council to legislate and co-ordinate activities.(Jose Maria Larranaga,1990)

One rule binding all enterprises is that no enterprise is allowed to go beyond the salary ratio scale of six to one, set out by the Congress. An enterprise could decide upon a three to one ratio and not break the rule, but if an enterprise went to ten to one, it would have to leave. Another example of a key strategic decision taken at the Congress level is whether and how to form alliances with traditional stock-owned companies in order to constitute the equivalent of joint ventures. If an individual enterprise or zone group does not abide by such guidelines then that enterprise is excluded from the system. Jose Maria Larranaga (1990) stresses that:

Here at Mondragon you have to play by the rules of the game. For example, a group of people could take a vote to decide whether to go to San Sebastian or Vitoria. You can’t go both ways, so you go with the majority or stay where you are. You play by the rules of the game by not getting what you want but going with the majority. There
is an imposition of the will of the superstructure on the individual entity, or the group. We have to be aware of the power that is developing. We are probably seeing the group as being a boss group over the little groups, but its not these second and third level groups deciding for the little ones, but the little ones deciding for themselves. They are the same people. (Jose Maria Larranaga, 1990)

The guidelines which the Congress General Assembly has been meeting to establish since 1984 are intended to benefit the interests of all the co-operatives with their diverse histories and interests. One issue was how to reorganize the whole complex, and the Congress could not come to an agreement, hence, they delegated the task to the General Council, with its 21 members. Council is authorized to examine the organization of the complex and make necessary changes, and continues to work toward that goal. (Jose Maria Larranaga, 1990)

The current reorganization of Mondragon aims to reduce the number of co-operatives from roughly 164 to 120, and to centralize decision making, in order to compete in capitalist markets. According to Jose Maria Larranaga (1990), "we are trying to unite the smaller co-operatives so that they won't be eaten up by big business." For the same reasons, the current eighteen zone groups are being merged into seven. The groups will vary in size, but will average five to six thousand members each. At the same time, the zone groups and third level Congress are assuming greater decision making powers over the co-operatives. According to Larranaga (1990), "the only reason for this reorganization is market pressure":

At Congress the General Council was authorized to examine the organization and make necessary changes. The plan is to reduce the 18 zone groups into seven groups. We have about 165 co-operatives and that is too many. We'll reduce the 165 co-operatives to about 120 or 125, so we'll amalgamate some, chop them up, bring them together and reorganize. The only reason we're doing this is market pressure. We have to do it. There is no choice. (Jose Maria Larranaga, 1990)

This strategy is a reversal of traditional Mondragon policies. As Phillips notes, Mondragon has historically observed the co-operative value of "Small is Beautiful". Mondragon
experience to date has been that successful co-operatives should avoid evolving into large operations, hence, as its own co-operatives grew in size the members would separate departments, to form new co-operatives that would maintain links through the Caja and other support co-operatives within the same system. As Phillips (1991) notes:

The original goal was to limit individual co-operatives to a maximum of 350 to 500 members in order not to impair participation or alienate the individual worker owner. This was reinforced by a strike in 1974 in Ulgor which had grown to a total membership of well over three thousand.(p.39)

The strike in Ulgor originated in the members’ sense of powerlessness over conditions in the workplace. Mondragon utilized a traditional management model without a social council at the time, and workers lacked sufficient control over policy making. The immediate result of the strike was the establishment of the social council and a reduction in the size of Ulgor’s membership. Nevertheless, the current strategy of the Mondragon executive is to increase membership in the individual co-operatives and, as will be seen in the following chapters, the strategy is based upon the perceived need to survive market conditions.

Undoubtedly, market pressures led to the creation of the third level. As Jose Maria Larranaga contends:

We want to maintain the co-operative model, but the market has become so competitive that at times decisions have to be made fast and the problem is to keep in mind the basic co-operative philosophy and take into account the small co-operative groups. The market is so competitive and it is not always easy to consult the individual co-operatives, so decisions have to be made at the general council level.(Jose Maria Larranaga,1990)
8.1. An Experimental Approach

When discussing the Mondragon system, as mentioned in previous chapters, it is important to keep in mind that, even after more than 35 years of economic success, members of the Mondragon co-operatives continue to perceive the system as an experiment. As Melnyk (1990) argues, "experiment implies incompleteness and openness to future possibilities." (p.29) Mondragon is a system, therefore, that is always in the process of change, with structures that are always incomplete or in the process of being determined. (Fleckenstein, 1992:61-63; Phillips, 1991:38-41; Melnyk, 1990:29) In the words of Arizmendi, who founded the system, "We have realized that theory is necessary, yes, but it is not sufficient; we build the road as we travel." (Quoted from Fleckenstein, 1992:62)

Very little has been written about the most recent changes in the Mondragon co-operatives, including the establishment of the third level Congress and its executive Council. According to Melnyk (1990), however, "there are trends which suggest that Mondragon is departing from its worker co-operative tradition toward a semi-capitalist model." (p.29) In essence, Melnyk (1990) questions whether Mondragon is becoming "just like a reasonably conscientious company". (p.29)

Mondragon is indeed co-operative, to the extent that its owners are those who contribute their labour and participate to a large degree in its governance. But many
important decisions which affect not only the workplace but the region’s future character, appear increasingly to be taken from the hands of the workers to the executive members at the third level.

8.2. Emergence into the EEC

The governance’s have been a difficult time for Spanish businesses, particularly with the 1992 emergence of Spain into the European Common Market. Capitalist competition is increasing at a rapid rate and Spanish firms are attempting not only to retain their own positions in national markets but to expand internationally as well. Jesus Larranaga, a founder of the Mondragon co-operatives and current director for international relations at Fagor, makes the point that, when the co-operatives were first established in the 1950s, the Spanish market was characterized by high tariffs and duties. It was therefore "very easy to have a successful business, in any business." In 1965, the Spanish government liberalized the market to a degree, but it wasn’t until after Franco’s death in 1975 that international competition became an important factor. Moreover, it wasn’t until the early 1980s that discussions took place with regards to Spain’s participation in the European Common Market. In essence, by 1992, there will be a single market for all of Europe rather than a series of national markets for each country. According to Jesus Larranaga, given these new pressures, the Mondragon co-operatives "must be more competitive than ever as an economic group." (Jesus Larranaga, 1990)

Leaders at Mondragon stress increasingly that, in many ways, co-operative structures are "inadequate " and cannot survive the global trend toward privatization, corporate mergers
and continental trading agreements. Jesus Larranaga (1990) is convinced that Mondragon must "rise to the occasion with a forward looking and realistic policy of adaptation" to market pressures. He calls this the most "difficult task in the whole history of the Mondragon coop movement" Jose Maria Larranaga stresses:

We want to maintain the co-operative model, but the market has become so competitive that at times the decisions have to be made fast and the problem is to keep in mind the basic co-operative philosophy and take into account the small co-operative groups. The market is so competitive and it is not always easy to consult the individual co-operatives, so decisions have to be made at the general council level.(Jose Maria Larranaga, 1990)

8.3. The Mondragon Response

The capitalism of the 1990s is characterized by mergers and joint ventures throughout Spain, Europe and the world. Hence, according to the Director of Co-operative Education at Mondragon, Jose Maria Larranaga (1990):

Volkswagen bought out Fiat (Seat) of Spain. All the big companies are doing that. They are buying out smaller companies, and they are keeping the same brand name (in this case Seat). The components are made in Germany but the local name Seat is used. Everyone is doing that and now we are going to do the same thing here at Mondragon.(Jose Maria Larranaga, 1990)

In addition, Larranaga asserts:

What we're intending to do is set up holding companies, so for example in refrigerators Fagor will set up a holding company and maybe Fagor will hold a share and Hoover dishwashing company in England will have a share. Through the holding company we'll have a commercial agreement.(Jose Maria Larranaga, 1990)

Hence, Mondragon is establishing semi-capitalist strategies, such as mixed holding companies, to compensate for the lack of share capital that can be sold to new partners. These include joint ventures with capitalist companies such as General Electric (U.S.A.), Hoover (Great Britain), and Hitachi (Japan). Through these agreements the workers at Mondragon
receive additional production work and their investment arms participate in outside business partnerships. (Jose Maria Larranaga, 1990; Phillips, 1991:40-41; Melnyk, 1990:30)

Mondragon leaders perceive the current commitment, to preserve co-operative structures internally while making capitalist deals externally, as a necessary evolution, an essential element for survival. Mondragon is growing rich and powerful through capitalist contracts, yet knows its limits, and does not challenge capitalism. Melnyk (1990) states that Mondragon is similar to a:

city-state with its territorial limit being the Basque region and in order to sustain its economic basis in the region it does whatever is expedient for survival. (p.30)

Caja Laboral Popular documents (1986) indicate that the current thinking is that Mondragon has no choice but to increase the capacity to compete:

The profound changes envisaged in the socio-economic framework, with Spain's entry into the EEC, tend to reinforce the need for association between co-operatives, urging the creation of Co-operative groups to carry out development in a more and more dynamic and competitive situation. (p.49)

It could be argued that capitalist activities do not unduly affect the co-operative nature of the Mondragon co-operatives themselves. But simultaneously with the emerging perception that Mondragon must compete internationally with large capitalist multinationals are the changes in the internal relationships and in the governance of the co-operatives. Melnyk (1990) asserts that the ideological contradictions inherent in current Mondragon practices may have serious consequences:

The schizophrenia of one set of internal rules and another set of rules for external relations could have serious side effects. Usually the more powerful partner in a union will modify the weaker and in this case the more powerful is capitalism. (p.31)
8.4. Internal Changes

Mondragon leaders created the Co-operative Congress (a third level) in late 1984, comparable to a "parliament," which meets annually to determine future policy direction. The Congress has subsequently assumed increasing legislative responsibilities in the operations of the individual co-operatives. (Melnyk, 1990:31) Jose Maria Larranaga (1990) contends that:

Having arrived at a crucial moment in the co-operative movement, we look at the market and what we lack, and see that what we need is a strong executive body. There has to be a strong body in the general council to legislate and coordinate activities. (Jose Maria Larranaga, 1990)

The Congress has assumed the responsibility for the future development of Mondragon Co-operatives. To enable the Congress to effectively plan future development, every co-operative is obliged to contribute to a central investment pool. Currently, the investment pool is used for the reorganization of existing enterprises. The Caja continues to provide investment capital for new enterprises.

There is also a corresponding change in ideology at Mondragon, brought on largely by external pressures and changing internal relations. Larranaga uses the term 'neo-cooperatism' to describe the system today. Gorrongoitia contends that Mondragon, as an experiment, is not stuck in any ideology. Openendedness is the key work associated with neo-cooperatism, and Mondragon is described as a "self-determining process." (Melnyk, 1990:28) Today, the leaders at Mondragon quote Arizmendi, who said "Do what you can given the circumstances of the day, always move ahead, and never expect perfection." (Jose Maria Larranaga, 1990)

Melnyk (1985) perceives Mondragon as being in the third phase of co-operativism.
The first phase is 'utopian', whereby co-operative structures are democratically established and much emphasis is placed on process. Second is the 'movement phase', when the initial co-operative model expands through the structures formed in the utopian phase. The third phase, the 'system' phase, is when there is increased consolidation internally and capitalist partnerships externally, marked by fewer co-operatives with larger numbers of people. According to Melnyk, Mondragon entered the third phase in the early 1980's.

MacLeod states that the "Mondragon conglomerate operates in a manner similar to any large modern corporation, yet the whole spirit of the conglomerate is different because it is not based on greed or profit." It indeed appears that the motive may be more community-oriented at Mondragon. Community roots are deep, and there is a corresponding commitment to the elimination of unemployment in the region. But at the same time the current commitment toward economic growth and expansion is creating tension with the system's co-operative roots. Jesus Larranaga, one of the original founders of the system, contends that the new strategy will "affect the original vision of the co-operatives," stating that "(I)t is necessary to keep the autonomous nature of each co-operative, but at the same time we need to unite our forces to be competitive." (Jesus Larranaga, 1990)

8.5 The Strategic Triangle

The key to Mondragon's attempt to resolve contradictions between top-down and bottom-up decision making strategies can be found in what Mondragon leaders refer to as the "Strategic Triangle." It is illustrated as having three sides: technology, finance, and "formacion."
Their own source of technology (primarily Ikerlan) and finance (Caja Laboral Popular) is considered indispensable if the system is to survive in a capitalist market. According to Phillips (1991):

Without these two agencies (Ikerlan and the Caja) it is estimated that two thirds of the co-operatives in the Mondragon complex would not have survived or would not remain competitive. (p.41)

The third side of the triangle, formacion, refers to top down information to inform members of decisions, and the reasoning behind decisions, and to ensure that members understand the information and have the knowledge, expertise, and will to participate in areas which are appropriate, along with the ability to adjust to changes in the system. (Jose Maria Larranaga, 1990; Phillips, 1991:41)

The Mondragon system allocates 600 dollars per worker annually to formacion. Jose Maria Larranaga, the director at Ikasbide in charge of co-operative education, contends that:

The reason we have difficulty with these changes is that we have difficulty thinking as a group. We have rules and regulations that we think aren’t good for us, that they impinge on our liberty. But just as a crosswalk on a busy street, the rules are good for us. The group is good for us. There are still individuals here that think as individuals, and when we begin to think as a group it will be better. ...(Jose Maria Larranaga, 1990)

According to Larranaga:

Traditionally we thought that co-operatives had to be small to function well and the danger is that when they get big they lose their democratic aspect. Now we see that there are whole levels of decision making going on at the different levels. When a co-operative system gets big you have to look to participate where you can participate. For example, it is a waste of time for me to talk about the national budget, because I cannot decide it, but there is a different area that I can look at and change...A lot of the time groups at Mondragon talk about things that they cannot change, and waste their time on things that shouldn’t be on their agenda. They talk about the political climate in Spain and should concentrate on such areas as their shop conditions and parking lots. (Jose Maria Larranaga, 1990)
In essence, Larrañaga maintains that Mondragon should have participation at the local level that deals with relevant local decisions. (Jose Maria Larrañaga, 1990)

Jose María Larrañaga uses the analogy of air flight to explain the Mondragon changes:

Everybody's function has to be very clear. A pilot cannot consult the passengers about how to land the plane, but does have to ask the passengers where they want to go. He'll get them there because he knows how to land the plane. The pilot is the technician who will get them where they want to go. But if there is a storm in the plane, and the pilot has to make many decisions, he will have technical things to do that he hasn't got time to explain to the passengers. The plane may even have to land in a different place. Mondragon has rapid decisions to make and does not have time to explain them. The General Assemblies only meet once per year. There are rapid fiscal, technical and economic changes taking place, and we don't have time to consult everyone. (Jose Maria Larrañaga, 1990)

MacLeod contends that Mondragon is similar in many ways to a large corporation which has many features such as human resources, marketing, and finance. There are certain objective factors that are present in any firm, capitalist or co-operative. According to MacLeod, "the individual first level co-operatives have decided for themselves that they are going to sacrifice a little bit of their individualism for the good of the group. Co-operatives have to co-operate with other co-operatives, and each little co-operative has to give up a little individualism for the good of the group." (MacLeod, 1990) Jose Maria Larrañaga states:

A co-operative can go off on its own, but chooses to become associated with a group of co-operatives because it thinks it is better for it. But when you become associated with a group you play by the rules of the game, and there will be some impositions placed upon you. The market is a sort of imposition placed upon you. You have no say, and cannot change the market. You have to accept the market the way it is. There are also rules of administration that you can't change. Competition is another factor, and you can say that it takes away from your liberty a little bit but really it doesn't. Society as a whole accepts competition as a rule of the game. Trade unions, banks and even the church are impositions accepted by society as a whole as rules of the game. (Jose Maria Larrañaga, 1990)

As part of the information process at Ikasbide, individual members are informed that, while
market pressures are undoubtedly the major reason for Mondragon's recent reorganization strategy, changes may also be explained upon ideological grounds:

The cooperative objective of creating economically efficient and democratically managed companies cannot nor must not be undermined by the creation of economic 'islands'; problems must be solved and new communal development options must be opened up. In other words, the creation of an economic 'island' radically detracts from the cooperative phenomenon, making a mockery of claims to solidarity and communal promotion. (Caja Laboral Popular, 1986)

Mondragon leaders continue to assert that large, integrated co-operatives "do business for the whole of the community," that a co-operative relationship must be "more than ideology." They make the distinction between Spanish "conservative" co-operatives and systems such as Mondragon, called "progressive." An example of conservative Spanish co-operatives is the Spanish agricultural co-operatives which have formed little more than a collective marketing group. In the Mondragon view, such co-operatives have an excessive concern with ideology and inadequate concern for actual results.

8.6. A Continued Commitment

Mondragon retains its commitment to the creation of employment. As Greg MacLeod contends, "Mondragon belongs to the community outside, and feels the social responsibility to start up other businesses." (MacLeod, 1990)

Jose Maria Larranaga contends that:

Co-operatives have an obligation not only to themselves, but to create more jobs. This is a real difference between co-operative and capitalist enterprises. (Jose Maria Larranaga, 1990)

Ikasbide is not committed to teaching co-operative theory, or the ideas that led to co-operativism, but concentrates upon the co-operative process at Mondragon, as illustrated by
the strategic triangle. It is contended that to effectively carry out their jobs, managers at Mondragon need to know the rules of association, conditions of employment, and Spanish laws governing co-operatives. They also need to be responsive to the spirit of the various co-operatives.

8.7 The Status of the Mondragon Experiment

The impact of Spain’s emergence into the EEC on co-operative development at Mondragon is far from clear. Mondragon officials’ concerns about the ability of the system to survive to inevitable increase in competition are unlikely to be entirely unfounded ones, as multinational firms enter the Spanish market in most sectors of the economy. Hence, innovative measures are required if Mondragon is to maintain its market advantages. At the same time, much sensitivity will be required to ensure the continuance of Mondragon’s co-operative tradition. Workers at Mondragon have become more removed from major policy making than ever before.

Nevertheless, when a co-operative is established at Mondragon, it develops its own internal structures, and legal framework, provided that it falls within the guidelines established and enforced by the Congress. Similarly, when an already established co-operative joins the Mondragon system it retains its legal, institutional and social structures, within the framework laid out by the Congress. Through the use of such bodies as social councils, general assemblies, audit committees, and support co-operatives, these workers have a far greater degree of influence over the destiny of their community than can be found in areas dominated by conventional corporations. One can only speculate as to whether size can be
reconciled with industrial democracy.
9.1 Co-operative Links

Canadian co-operatives have long attempted to promote a recognition and support of co-operatives as a legitimate economic third sector of the economy. The former Canadian Union of Co-operatives, established in 1909, operated as a promoter of co-operative interests, and there are in many areas of the country (notably Quebec and the Atlantic Provinces) inter-co-operative links which attempt to promote the expansion of producer co-operatives. Co-operatives in Canada, however, have failed to impact the overall economy in a significant way. One factor related to the failure of Canadian co-operatives to attain third sector status has been the ability of powerful conventional businesses to lobby provincial and federal governments to secure deals for locating their industries in Canada. (Laycock, 1987:10) Private sector competitors, well organized and financed, have indeed added to the dominant perception in Canada that co-operatives are not a legitimate form of business, and have lobbied governments with this in mind. At the same time, Canadian co-operatives have largely been directed by people suspicious of close relationships between their co-operatives and governments, and co-operatives have therefore failed to set their own agenda with governments. (Laycock 1987:19)

In addition, the absence of systematic, influential, organizational links with sister co-operatives, the state and the public has meant that co-operativism has not had the impact expected by proponents of the movement. Canadian economics is characterized by divided
provincial and federal jurisdictions, and separated departmental jurisdictions at both levels. Hence, local initiatives are required for co-operatives to begin challenging the notion that they are merely isolated islands as compared with the private corporations that dominate the economy. Like Canadian co-operatives, Mondragon began with a small group of socially concerned and motivated people with commitment to their community and a vision for the future. Unlike the Canadian example, however, along with a commitment to co-operative philosophy Mondragon has exhibited a great degree of flexibility and willingness to use all the legislative, commercial and governmental resources they could find available.

9.2 State - Co-operative Relations

Mondragon has close ties with Spain's provincial and federal levels of government, and does not share in the Canadian co-operatives' reluctance to lobby for and accept governmental assistance for developing and expanding upon worker co-operative enterprises and systems. Proponents of Canadian co-operative development may need to improve upon their attempts to make concrete progress upon their attempts to promote producer co-operatives in Canada. As Laycock (1987) argues:

So long as co-operatives and their promoters have a clear sense of the democratic objectives of co-operative development prospects, there can be a minimization of the dangers associated with corporatist relations between co-operatives and state agencies. (p.20)

A major obstacle in Canada is that the existing informal network of worker co-operative resource groups and activists in Canada lack sufficient human and financial resources for exposing the concepts, rationales and current examples of worker co-operatives to co-operative members, government officials and the general public. Examples of successful
producer co-operatives such as Mondragon illustrate that it is possible for co-operative movements to develop and expand upon the co-operative sharing of education, finance and social services.

9.3 Support Co-operatives

The Mondragon experiment indicates that technical and financial support arrangements, available to co-operatives via inter-co-operative links, can provide a near guarantee against later failure. At Mondragon, so long as a co-operative is a member of the association, the Caja, Ikerlan, the L.K.S. and other support co-operatives, governed by the producer co-operatives and their own employees, will help the co-operative through losses due to changes in market conditions or other variables. As mentioned in previous chapters, Mondragon members understand that the support co-operatives are largely responsible for the success of the system.

9.2 Credit Union

Financial sharing is necessary in large scale co-operative development. Canadian Credit Unions are not actively related to new community enterprise creation in Canada. (Laycock,1987) Canadian co-operatives generally lack the types and degrees of support which Mondragon's Caja Laboral Popular has supplied to its member co-operatives during the past thirty years. The role of the Caja and its relationship to the service institutions is vital to the experiment and relevant to the Canadian situation. The Caja Laboral Popular is a
service co-operative for the system, and an institution designed to assist in the growth of the movement.

9.4 Capital Accumulation

Inter-co-operative sharing also permits co-operatives to keep profits within the co-operative development movement. A carefully developed plan to keep money within the co-operative system is essential. While there are many examples of successful co-operatives in Canada, the provisions for reinvesting to expand the co-operative movement are lacking. This is fundamental to the success of Mondragon. Member workers at Mondragon receive a fair and adequate income and, at the same time, the remainder of profit is available to the system, to constantly recapitalize and develop new worker co-operatives. The system of splitting profits into 10 percent for a social fund, 45 percent to the company reserves, and 45 percent to the member accounts, which must remain in the Caja as long as the worker continues to work, facilitates the entire development process. This formula is encouraged through legal provisions by the Spanish state, to increase employment rates. Companies receive financial bonuses and tax concessions in accordance with the numbers of employment opportunities they create.

9.5 Economies of Scale

At the same time, inter-co-operative collaboration allows the co-operatives to achieve economies of scale, due to their ability to complement rather than compete with each other as they operate in the same general community. Through collaboration in management and
services, according the Caja Laboral documents, association also allows co-operatives the possibility of "homogenizing the internal rules and the structures of the co-operatives," allowing them to "learn from the experiences of each other." (Caja Laboral Popular, 1986:49) While this is indeed true to a degree, it must be emphasized at the same time that by "homogenizing the internal rules and structures" the individual co-operatives lose a degree of freedom and autonomy, and therefore variety. Whether Mondragon has overstepped the boundaries of industrial democracy remains to be seen.

9.6 Social Services and Education

The co-operative system at Mondragon allows co-operatives to collaborate and adopt common and effective responses to the need for community services, such as the social services provided by Lagun-Aro and education provided by Hezibide Elkarte.a (Caja Laboral Popular, 1986:49)

Hezibide Elkartea is the tool by which Mondragon is able to train people in the community to be productive within their own community. Hence, conventional regional development techniques such as the "growth centre" attempt at regional development are unnecessary in the Basque region. The result is also a high level of competence and skill in the co-operatives, a basic requirement stressed throughout the Mondragon experiment. A professional, knowledgeable, and highly skilled approach to all the strategies makes the likelihood of success much more certain and has undoubtedly contributed to the success of the Mondragon approach.

Mondragon also makes use of professionals outside of the system, in a manner similar
to conventional companies. To utilize better technical resources, the Canadian movement must establish liaison with university departments and recruit graduates of universities, as other corporations do as a matter of policy.

Social commitment at Mondragon implies the creation of employment. "Doing business for the good of the community" is constantly referred to in Mondragon circles. The essential goal of the system is to be economically successful in a capitalist environment, to create new co-operative businesses, and to thus better the living standards of the entire community. The spinoffs then are numerous for the region as a whole. Jesus Larranaga contends that "as long as unemployment exists, every co-operative has the duty to expand." (Jesus Larranaga:1990)

Balancing the need for autonomy and the need for economic viability at Mondragon has been a difficult and seemingly unresolved dilemma, particularly since the mid-1980's. The recent reorganization raises serious questions about the future of worker participation in many spheres of the system. In any case, Mondragon is a crucial component in the ongoing debate on the need for a truly democratic community.
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