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The Worker Co-operative Movements in Italy, Mondragon and France: Context, Success Factors and Lessons

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Abstract

The objective of this paper is to analyze the public policy environment, capitalization environment, availability of federation support, and the context for the worker co-op movements in each of Italy, Mondragon (Spain) and France. These three countries or regions have the largest, most dynamic worker co-op movements in the world. To grow a large worker co-op movement, a system of supports is required to enable the transfer of appropriate knowledge to many people, in addition to having access to worker coop-friendly sources of capital. Although there were some success factors in each region which could not be easily replicated in other places and although there were significant differences among regions, there were many **common elements contributing to the success of the worker co-op movement in all three places**. These were: (1) **sufficient capital accessible to worker co-ops**; (2) technical assistance provided to worker co-ops in the start-up phase; (3) a mandatory indivisible reserve, at least for those “mostly mutual” worker co-ops which were able to receive government support; (4) **significant federation and consortia structures** which

support, guide, direct, and help educate the worker co-operatives; (5) significant concentrations by industry; (6) a strong sense of solidarity and inter-cooperation; and (7) **scale:** having achieved a size and strength to enable the worker co-op movements to be taken seriously by governments, the broader co-operative sector, etc...

3) Mondragon

a. Size, industry sectors and general description of the WC movement

Like Italy, Spain has promotion of the co-operative model in its constitution.³²

There are an estimated 18,000 worker co-operatives that employ 300,000 in Spain.³³

This sector has grown 30% over the last five years.³⁴

b. Growth trends and rates

The Mondragon Cooperative Corporation has grown from its initial 25 workers in 1956.³⁵ From the mid-1960s to the mid 1970s, Mondragon grew by about 1,000 workers per year.³⁶ From 1986 to 1996, Mondragon grew from 19,669 workers to 30,634³⁷. Sales in 1997 were \$5 billion euros.³⁸ There are 256 businesses under the umbrella of the Mondragon conglomerate.³⁹ As of 2009 Mondragon employed 92,773 workers with sales of \$33 billion euros.⁴⁰ This accounts for 25% of the total sales and 15% of all workers in the worker co-operative sector in Spain.⁴¹ Mondragon is the largest business group in the Basque region and is the seventh largest business in Spain in terms of both sales and the number of workers.⁴² Unlike corporations, Mondragon's strategic plan includes job creation goals.⁴³ In 2003 Mondragon was ranked by Fortune magazine as

³² Fici, A. (2009). The New Italian Co-operative Law and Co-operative Principles. Co-operative Legislation and Public Policy Symposium at St. Mary's University. Retrieved from:

www.smu.ca/academic/sobey/mm/policysymposium.html p. 7

³³ https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---

[emp_ent/documents/publication/wcms_108416.pdf](#)

³⁴ Work Together, newsletter of CICOPA, April, 2009, p. 9.

³⁵ <http://www.ownershipassociates.com/mcc-intro.shtm>

³⁶ Bradley, K. & Gelb, A. (1981). The Mondragon Experiment. *British Journal of Industrial Relations*, 19(2), 211-31.

³⁷ Richleycase, B. (2009). A Theory of Socio-Business Diffusion: Understanding the Influence of Mondragon Corporation Cooperativa as a Positive Force for Change at the Intersection of Business and Society. Unpublished doctoral dissertation, Western Reserve University.

³⁸ Freundlich, F. (1998). Mondragon Cooperative Corporation (MCC): An Introduction. Partner Ownership Associates, Inc., Bilbao, Spain. Retrieved from:

http://www.clcr.org/publications/other/Intro_To_Mondragon.doc

³⁹ <http://www.mondragon-corporation.com/language/en-US/ENG/Frequently-askedquestions/Corporation.aspx>

⁴⁰ <http://www.mondragon-corporation.com/language/en-US/ENG/Economic-Data/Most-relevantdata.aspx>

⁴¹ Cote, D. & Vezina, M. (2001). The Co-operative Movement: European Experiences. In Restakis, J. & Lindquist, A (Eds.), *The Co-op Alternative: Civil Society and the Future of Public Services* (pp.52-76). Toronto: The Institute of Public Administration Canada.

⁴² <http://www.mondragon-corporation.com/ENG/Co-operativism/Co-operative-Experience/Jose-M%C2%AA-Arizmendiarieta.aspx>

⁴³ MacLeod, Greg. The Mondragon Experiment: The Public Purpose Organization. Retrieved from: <http://hir.harvard.edu/index.php?page=article&id=1855>

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one of the top ten places to work in Europe.⁴⁴ Overall Mondragon has outperformed most private business firms in Spain in almost all respects.⁴⁵

Mondragon has four main business components: finance, industry, retail, and

knowledge. In 2009, Mondragon's own bank, the Caja Laboral Popular, had 16.8 billion euros in loans outstanding. (Note that the Caja is explained in detail in next section d,

below: Capitalization.”) The default rate on these loans on these loans was 2.9%, almost 50% lower than the rest of the banking sector in Spain. In 2009, the Caja was voted as providing the best customer service among financial institutions in Spain.⁴⁶

The industry component of Mondragon's business in 2008 had sales of 6.5 billion euros and employed 40,822 workers. Out of this, 1.8 billion euros were from consumer good sales, such as household appliances and furniture, leisure and sporting equipment. Another 2.0 billion euros was from industrial components (automotive, domestic appliance components, and pipe fittings), 1.3 billion euros from construction, and 1.2 billion euros came from capital goods (automation, machinery, and refrigeration equipment). As of 2008 there were 73 production plants outside Spain, 13 of which were in China.⁴⁷

The retail arm of Mondragon is the Eroski Group. Retail sales in 2008 for its 2,400 supermarket and 115 hypermarket (big box format) consumer co-operatives was 9.1 billion euros. In 2008 alone, Eroski opened 7 hypermarkets and almost 100 supermarkets. This a fast growing sector in Mondragon, for in 2008 there were over 46,051 workers, compared to 36,400 in just 2006.⁴⁸ About 9% of workers in Mondragon are not member-owners, many of whom work at Eroski. At Mondragon's 2009 General Assembly there was a motion passed to try to increase the number of member-owners at Eroski.⁴⁹

The Knowledge component of Mondragon includes its technology centres that had expenditures of 51 million euros and employed 748 workers in 2008. The University

⁴⁴ Richleycase, B. (2009). A Theory of Socio-Business Diffusion: Understanding the Influence of Mondragon Corporation Cooperativa as a Positive Force for Chance at the Intersection of Business and Society. Unpublished doctoral dissertation, Western Reserve University.

⁴⁵ Bradley, K. & Gelb, A. (1981). The Mondragon Experiment. *British Journal of Industrial Relations*, 19(2), 211-31.

⁴⁶ <http://www.mondragon-corporation.com/ENG/Pressroom/>

<articleType/ArticleView/articleId/1411.aspx>

⁴⁷ Mondragon 2008 Annual Report. Retrieved from: <http://www.mondragoncorporation.com/LinkClick.aspx?fileticket=d7ULZaqxbMI%3d&tabid=331>

⁴⁸ Mondragon 2008 Annual Report. Retrieved from: <http://www.mondragoncorporation.com/LinkClick.aspx?fileticket=d7ULZaqxbMI%3d&tabid=331>

⁴⁹ Kelly, G. & Massena, S. (2009, June). Mondragon Co-operatives Decide How to Ride out a Downturn, *Yes! Magazine*. Retrieved from: www.yesmagazine.org/issues/the-new-economy/mondragonworker-cooperatives-decide-how-to-ride-out-a-downturn

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of Mondragon in 2008 had 3,707 students. In addition there are numerous education and training centres for Mondragon employees.⁵⁰

c. General legislative and policy environment

Mondragon has received no direct government financial support, but has over time received favourable tax rates. The Spanish government taxes co-operative profits at 10%, compared to the corporate tax rate of 28%.⁵¹ The rest of this section in this paper will focus on Mondragon's internal success factors.

d. Capitalization

From the beginning, Mondragon has re-invested its profits back into its worker co-operatives. In Mondragon, from 30% to 50% of profits each year go into the cooperative's indivisible reserve fund ⁵². Ten percent of the profits are donated to education, health, and in the community.⁵³ This 10% donation is mandated by Spanish Co-operative Law.⁵⁴ The remaining profits are placed into individual members' capital accounts, based on the number of hours worked and pay grade, which cannot be accessed until retirement.⁵⁵ The reserve fund, and the member capital accounts, ensure that up to 90% of profits in Mondragon are re-invested back into the worker co-operative to help it grow and employ more people.⁵⁶

Another way Mondragon generates liquid capital is through Lagun Aro, their insurance and social security service. When worker co-ops were first started in Mondragon, the Spanish government determined that their workers were self-employed.

The result of this was that Mondragon workers did not qualify for unemployment insurance, social security, or health care insurance from the Spanish government. In response, Mondragon created their own insurance and social security service, internally

⁵⁰ Mondragon 2008 Annual Report. Retrieved from: <http://www.mondragoncorporation.com/LinkClick.aspx?fileticket=d7ULZaqxbMI%3d&tabid=331>

⁵¹ Noticias Juridicas. "Law 20/1990 — The Taxation of Co-operatives in Spain." Retrieved 23 July 2008 from: http://noticias.juridicas.com/base_datos/Fiscal/l20-1990.html as cited in Adeler, M.A. (2009)

Enabling Policy Environments for Co-operative Development: A Comparative Experience.

⁵² Learning from the Mondragon Cooperative Experience. William Foote Whyte. *Studies in Comparative International Development*, Summer 1995, Vol. 30, No.2, 58-67.

⁵³ Enabling Ethical Economies: Cooperativism and Class. J.K. GIBSON-GRAHAM. *Critical Sociology*, Volume 29, issue 2 (2003).

⁵⁴ Ellerman, D. The Mondragon Cooperative Movement. Harvard Business School Case No. 1-384-270. Boston: Harvard Business School, 1984.

⁵⁵ Whyte, W.F. (1995). Learning from the Mondragon Cooperative Experience. William. *Studies in Comparative International Development*, 30(2), 58-67.

⁵⁶ Mungall, C. (1986). *More Than Just A Job: Worker Cooperatives in Canada*. Ottawa: Steel Rail.

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paid for by its workers. **Some of this money in the meantime was used as patient capital to finance co-operatives.**⁵⁷

Mondragon's inventiveness did not end there. After the start-up of the

Mondragon system, the primary founder, Father Jose Maria Arizmendiarieta

("Arizmendi") saw that worker co-operatives could not reach their full potential without

an adequate amount of capital. His literature review showed that private banks would not

sufficiently provide this capital. To get around the problem of capitalization, Arizmendi came up with the idea that Mondragon had to create its own banking system.⁵⁸

From this realization, in 1959 Mondragon created a co-operative bank named the Caja Laboral Popular. The Caja allowed Mondragon to use its profits to expand existing co-operatives and to create new ones, in addition to providing banking services to members. The Caja is able to provide much needed capital, which in general is one of the major difficulties for worker co-operatives⁵⁹. Note that “the Caja Laboral Popular (was established) as a credit cooperative with the members being worker cooperatives and other cooperatives (not individual depositors).⁶⁰

Early on, each co-operative in Mondragon submitted monthly financial statements to the Caja. In this way the Caja could identify when a co-operative was struggling and when assistance was necessary.⁶¹ Those co-operatives within Mondragon who received help from the Caja usually accepted a decrease in wages during the financial crisis and sometimes paid a percentage of future profits back to the Caja.⁶²

Eventually the Caja created an entrepreneurial division at Mondragon to provide technical support for new worker co-operatives.⁶³ About 10% of entrepreneurial ideas were further developed by the Caja and 4 or 5 each year become new worker cooperatives.

⁶⁴ In deciding whether to provide funding to a start-up co-operative,

Mondragon since the beginning has put as much emphasis on the ability of the members to work together as they have on the feasibility of the business.⁶⁵ Mondragon believes

⁵⁷ Freundlich, F. (1998). Mondragon Cooperative Corporation (MCC): An Introduction. Partner Ownership Associates, Inc., Bilbao, Spain. Retrieved from:

http://www.clcr.org/publications/other/Intro_To_Mondragon.doc

⁵⁸ Gutierrez-Johnson, A. & Whyte, W.F. (1977). The Mondragón System of Worker Production Cooperatives. *Industrial and Labor Relations Review*, 31(1).

⁵⁹ What Makes Coops Work? Institutional Viability, Firm Creation, Survival and Closure Among

Workers' Cooperatives in France. Virginia A. Perotin. Cornell University. May 1997.

⁶⁰ Pérotin, V. A. (1997): What Makes Coops Work? Institutional Viability, Firm Creation, Survival and Closure Among Workers' Cooperatives in France. Ph.D. dissertation, Department of Economics, Cornell University.

⁶¹ Flessati, Dominic. (1980). The Mondragon Experiment. BBC - Television.

⁶² Whyte, W.F. (1995). Learning from the Mondragon Cooperative Experience. William. *Studies in Comparative International Development*, 30(2), 58-67.

⁶³ Whyte, W.F. (1995). Learning from the Mondragon Cooperative Experience. William. *Studies in Comparative International Development*, 30(2), 58-67.

⁶⁴ Mungall, C. (1986). *More Than Just A Job: Worker Cooperatives in Canada*. Ottawa: Steel Rail.

⁶⁵ Gutierrez-Johnson, A. & Whyte, W.F. (1977). The Mondragón System of Worker Production Cooperatives. *Industrial and Labor Relations Review*, 31(1).

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that the natural bond of friendship is one of the key ingredients for a worker cooperative's success.⁶⁶

The Caja and each new co-operative worked closely together until the co-op was profitable. Entrepreneurs had to put up double the amount of capital that they received from other investors. The rest was lent to the co-op by the Caja at market interest rates. If the co-op experienced difficulty, the Caja lent money at half the market rate. As a crisis progressed, the Caja lent money at zero percent interest and even resorted to donating money to the co-op.⁶⁷ The result is that Mondragon has a 90% survival rate for start-up co-operatives, which is significantly higher than the 20% rate for conventional businesses.⁶⁸ The Caja provided both patient capital and technical assistance, which are the critical ingredients that allow start-up co-operatives to survive and flourish to allow them to reach their full potential. Mondragon's Central Inter-cooperative Fund has now taken over these functions, while the Caja now focuses just on consumer and business banking.⁶⁹

e. Mutual support; support by Worker Co-op Federations, other co-op associations

Unlike worker co-operatives in Italy, Mondragon has been unable to successfully co-operate with other co-operatives and associations in Spain. The result is that, unlike co-operatives in Italy, Mondragon has not received much direct financial support or assistance from the government.⁷⁰

However the Mondragon Co-operative Corporation is itself a large co-operative “group” or consortium. Within it, some decisions are quite centralized with regard to,

e.g., which co-operatives will receive start-up support. There are many worker cooperatives in Spain. What clearly distinguishes Mondragon is that it is the only group in the country that has “produced an integrated, mutually reinforcing system of organizations, whereas the outside cooperative firms were all small and had no such supporting linkages.”⁷¹ One of the advantages of this is the sharing of resources among Mondragon co-operatives. In 1965, Arizmendi created co-operative groups within

⁶⁶ Richleycase, B. (2009). A Theory of Socio-Business Diffusion: Understanding the Influence of Mondragon Corporation Cooperativa as a Positive Force for Chance at the Intersection of Business and Society. Unpublished doctoral dissertation, Western Reserve University.

⁶⁷ Richleycase, B. (2009). A Theory of Socio-Business Diffusion: Understanding the Influence of Mondragon Corporation Cooperativa as a Positive Force for Chance at the Intersection of Business and Society. Unpublished doctoral dissertation, Western Reserve University.

⁶⁸ Freundlich, F. (1998). Mondragon Cooperative Corporation (MCC): An Introduction. Partner Ownership Associates, Inc., Bilbao, Spain. Retrieved from:
http://www.clcr.org/publications/other/Intro_To_Mondragon.doc

⁶⁹ Freundlich, F. (1998). Mondragon Cooperative Corporation (MCC): An Introduction. Partner Ownership Associates, Inc., Bilbao, Spain. Retrieved from:
http://www.clcr.org/publications/other/Intro_To_Mondragon.doc

⁷⁰Interview on January 25, 2010 with Bruno Roelants, General Secretary, CICOPA.

⁷¹Whyte, W.F. (1995). Learning from the Mondragon Cooperative Experience. *Studies in Comparative International Development*, 30(2), 58-67.

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Mondragon. To utilize resources among the co-operatives more effectively, services like “accounting, advertising, personnel administration, and research” were shared within cooperative groups to achieve significant cost efficiencies.⁷² There is also a strong focus on inter-cooperation among the members of the Mondragon Co-operative Corporation (“MCC”).

The Mondragon group was reorganized in 1991, getting away from regional structures and more aligned with industry sector. The governing bodies of the Corporation, controlled by the member co-ops, are now called the Standing Committee and the General Council.⁷³ According to Fred Freundlich of Ownership Associates:

“The regional subgroups were mostly dissolved and the individual co-operative enterprises were grouped instead by industrial sector within the MCC’s new structure: three main business groups (Financial, Industrial, and Retail) and, within the Industrial Group, seven different divisions. The MCC as a whole is now managed by a President and his General Council, which is comprised of nine vice-presidents (one per group or division) and the directors of the six MCC Central Departments. MCC officials emphasize that the purpose of the reorganization was most definitely *not* centralized operational control, but rather, closer coordination of activities within common business sectors, improved economies of scale, and greatly strengthened strategic planning.”⁷⁴ Notwithstanding the stated purpose of the reorganization, MCC is significantly more centralized than other worker co-operative movements.

An example of the advantage of integration/ centralization has been seen during economic downturns. The Mondragon group does all it can to not lay workers off.

Arizmendi believed that one of the tenets of social justice was the right to work.⁷⁵ In the early 1980s, some co-operatives in Mondragon were experiencing financial difficulties. Unemployment in the Basque region was 25%. Instead of laying people off, Mondragon redeployed workers in the struggling co-operatives to ones that were better off.

Struggling co-operatives were reorganized by Mondragon.⁷⁶ Those who were not redeployed were given income assistance that equalled 80% of their salary. Laid off workers are given the opportunity to retrain.⁷⁷ With this very few workers lost their jobs,

⁷² Whyte, W.F. (1995). Learning from the Mondragon Cooperative Experience. William. *Studies in Comparative International Development*, 30(2), 58-67.

⁷³ www.mondragon-corporation.com/language/en-US/ENG/Who-we-are/Organisationalstructure.aspx

⁷⁴ Freundlich, F. (1998). Mondragon Cooperative Corporation (MCC): An Introduction. Partner Ownership Associates, Inc., Bilbao, Spain. Retrieved from:

http://www.clcr.org/publications/other/Intro_To_Mondragon.doc

⁷⁵ Herrera, D. (2004). Mondragon: A For-Profit Organization That Embodies Catholic Social Thought. *Review of Business*, 25.

⁷⁶ Bradley, K. & Gelb, A. (1981). The Mondragon Experiment. *British Journal of Industrial Relations*, 19(2), 211-31.

⁷⁷ Freundlich, F. (1998). Mondragon Cooperative Corporation (MCC): An Introduction. Partner Ownership Associates, Inc., Bilbao, Spain. Retrieved from:

http://www.clcr.org/publications/other/Intro_To_Mondragon.doc

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which was in contrast to those working in the private sector.⁷⁸ The central control structure of Mondragon allowed for this to happen. This would have been unlikely to happen in unorganized and autonomous co-operatives.

Having a centralized structure also has helped Mondragon respond quickly to the increasingly globalized economy. The 1991 restructuring and consolidation process was largely carried out in order for Mondragon to remain competitive. The result was “greater inter-firm solidarity, utilizing sectoral groups and with centralized group functions for development of quality standards and international marketing and investment.”⁷⁹ Groupings by industrial sector allowed the co-operatives to take advantage of economies of scale, to share technology and research and development, and also to share management expertise. This has been seen as critical in allowing small and medium-sized co-operatives to invest and benefit from research and development, something that is typically only available to larger firms.⁸⁰

A unique aspect of the Mondragon Group is that it has its own set of co-operative principles, expanding on the International Co-operative Alliance (ICA) principles, as follows:

Mondragon Principles

- 1. Open Admission**
- 2. Democratic Organization**
- 3. Sovereignty of Labour**
- 4. Instrumental and Subordinate Nature of Capital**
- 5. Participatory Management**
- 6. Wage Solidarity**
- 7. Interco-operation**
- 8. Social Transformation**
- 9. Universality**
- 10. Education**

What is distinct from the international co-operative principles is the significant focus on the role of working people (principles 3 through 6) as well as Universality (9),

and Social Transformation (8). The Mondragon principles go beyond the ICA principles, with their co-operatives led by the working class, and to benefit working people, and with the ultimate goal of social transformation. Training not only about co-operative functioning but also on technical issues of running each co-operative business is very important, and this is what is meant by “Education”, not only education about cooperatives.

⁷⁸ Whyte, W.F. (1995). Learning from the Mondragon Cooperative Experience. William. *Studies in Comparative International Development*, 30(2), 58-67.

⁷⁹ Clamp, C.A. (2000). The Internationalization of Mondragon. *Annals of Public and Cooperative Economics*, 71(4), 557-577.

⁸⁰ Freundlich, F. (1998). Mondragon Cooperative Corporation (MCC): An Introduction. Partner Ownership Associates, Inc., Bilbao, Spain. Retrieved from:

http://www.clcr.org/publications/other/Intro_To_Mondragon.doc

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Values have had a big influence on wages. With high profits, Mondragon could have paid higher wages. The founders of Mondragon though decided to set wages at levels that were in line with wages in the community and not based on productivity of the co-operative. The reasons were two-fold. One was to ensure that relative equality was maintained in the community. The second was to increase the ability of Mondragon to use surpluses to fund the start-up and development of co-operatives⁸¹. Wages for workers at Mondragon are 13% higher than rates for similar jobs in similar industries. This does not include the profit sharing or benefits, though. Wages for middle income are equal to the private sector, while upper management receives about 30% less than their private sector counterparts.⁸²

Mondragon has been able to create loyalty within the workplace and also within the community. In Mondragon, each worker takes an aptitude test to ensure that they are a good fit in the co-operative in the first place.⁸³ The most important aptitude that

Mondragon looks for in an applicant is their ability to fit within the community and within the co-operative. They have to be socially accepted.⁸⁴ Surveys have indicated that workers at Mondragon are extrinsically motivated by decent income and benefits, in addition to job security. The highest priority of workers throughout all job levels though was the strong belief in co-operativism.⁸⁵ It has been found that Mondragon workers' "values were the core driver in an ever evolving and lifelong process committed to actualizing change at the intersection of business and society."⁸⁶

Mondragon is also supported by the community. Providing decent and stable jobs in a region with high unemployment helps build support from the community. There is also a policy of hiring the sons and daughters of current workers, which ensures that those growing up in the community can work at Mondragon. Donating 10% of its profits to the community is also important. Many social services provided in the community are funded by Mondragon.⁸⁷ Mondragon's University is open to the public, too. Community involvement has created a sense of familiarity, trust, and solidarity between the community and Mondragon. These important community ties are even thought to reduce employee turnover, which is important to Mondragon's stability, efficiency, in addition to

⁸¹ Gibson-Graham, J.K. (2003). Enabling Ethical Economies: Cooperativism and Class. *Critical Sociology*, 29(2), 123-161.

⁸² Herrera, D. (2004). Mondragon: A For-Profit Organization That Embodies Catholic Social Thought. *Review of Business*, 25.

⁸³ Flessati, Dominic. (1980). The Mondragon Experiment. BBC - Television.

⁸⁴ Bradley, K. & Gelb, A. (1982). The Replication and Sustainability of the Mondragon Experiment. *British Journal of Industrial Relations*, 20(1), 20-33.

⁸⁵ Bradley, K. & Gelb, A. (1981). The Mondragon Experiment. *British Journal of Industrial Relations*, 19(2), 211-31.

⁸⁶ Richleycase, B. (2009). A Theory of Socio-Business Diffusion: Understanding the Influence of

Mondragon Corporation Cooperativa as a Positive Force for Change at the Intersection of Business and Society. Unpublished doctoral dissertation, Western Reserve University.

⁸⁷Bradley, K. & Gelb, A. (1982). The Replication and Sustainability of the Mondragon Experiment. *British Journal of Industrial Relations*, 20(1), 20-33.

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keeping valuable member capital within Mondragon to enable it to finance future business opportunities.⁸⁸

Mondragon has been able to develop and maintain leadership. Mondragon was founded by a strong leader, Arizmendi. Today Mondragon mentors and grooms leaders. These people are deployed throughout Mondragon to help improve the management of individual worker co-operatives. Though this has created a leadership class, through their commitment of energy, time, and by accepting relatively low pay for their skill set, they generally receive a great amount of support from worker-members.⁸⁹

f. Social / economic / cultural context

To understand the Mondragon co-operative movement today, understanding its long history is important. Worker co-operatives first appeared in Spain in 1842 and became an industrial worker and farmer movement in the 1860s.⁹⁰ Rejecting both capitalism and communism as exploitative and authoritarian, co-operativism was seen as a third and more humane way of working, with democratically run and worker-owned workplaces.⁹¹ Still today, “Basques have a strong associative spirit, which cuts across class lines, and is supported by their high evaluation of social equality.”⁹²

The growth of worker co-operatives was impeded during the Civil War when Franco's Fascists took control of Spain. The ideas of worker ownership and democratic control survived though, especially in the Basque region. However this region was economically in ruins and was politically shunned after being on the losing side of the

Civil War.

Arizmendi opened a technical training school in Mondragon, Spain in 1943.

Along with the technical component, Arizmendi blended the ideas of social justice and democracy in his classes. Graduates though were unsuccessful in implementing these ideas in their places of work. With the support of Arizmendi, five engineering graduates purchased a bankrupt paraffin oven factory.⁹³ This factory was owned and democratically controlled by its members. Mondragon's goal was not only to create business success, but social success too.⁹⁴

⁸⁸ Bradley, K. & Gelb, A. (1982). The Replication and Sustainability of the Mondragon Experiment. *British Journal of Industrial Relations*, 20(1), 20-33.

⁸⁹ Mungall, C. (1986). *More Than Just A Job: Worker Cooperatives in Canada*. Ottawa: Steel Rail.

⁹⁰ <http://www.coopseurope.coop/spip.php?article502>

⁹¹ Bradley, K. & Gelb, A. (1981). The Mondragon Experiment. *British Journal of Industrial Relations*, 19(2), 211-31.

⁹² Gutierrez-Johnson, A. & Whyte, W.F. (1977). The Mondragón System of Worker Production Cooperatives. *Industrial and Labor Relations Review*, 31(1).

⁹³ Ellerman, D. (1984) The Mondragon Cooperative Movement. Boston: Harvard Business School, Case No.1-384-270.

⁹⁴ Richleycase, B. (2009). A Theory of Socio-Business Diffusion: Understanding the Influence of Mondragon Corporation Cooperativa as a Positive Force for Change at the Intersection of Business and Society. Unpublished doctoral dissertation, Western Reserve University.

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There were some situational advantages that Mondragon had early on that were unique. One was that it was established at a time when Spanish manufacturers were insulated from foreign competition by sizable tariffs. Another advantage was that the Basque regional economy was still recovering from the Civil War and World War II.

Tariffs also protected Spanish manufacturers from foreign competition. With little competition and high demand, any practical products were easily sold.⁹⁵ Mondragon quickly expanded to manufacturing space heaters and electrical appliances, selling its products in the Basque region and throughout Spain.⁹⁶ It was not until Spain joined the European Union in 1986 that this changed.⁹⁷ Tariffs that helped protect manufacturers in Spain were eliminated in 1993.⁹⁸ Mondragon was fortunate to grow in conditions protected by tariffs that enabled it to be in a position to survive foreign competition. In response to globalization, since 1994 Mondragon has expanded throughout the world, especially in emerging nations. The impetus of this was to lower production costs, much in line with multinational corporations. By the end of 2004, Mondragon was on target to have 13% of its workforce in these nations. Most of these workers do not own or democratically control their workplace. Mondragon is working on ways to better integrate these workers into the Mondragon system with the goal of making them member-owners, but the process is going very slowly.⁹⁹

In the fall of 2009, Mondragon and the United Steelworkers, the largest industrial union in the United States, agreed to work together to promote worker co-operatives in the United States and Canada. Of note, Mondragon had sales of almost \$200 million in 2008 in the United States. The goal of this collaboration is to create jobs in Canada and the United States based on the Mondragon model¹⁰⁰, focusing on helping to create unionized worker co-ops. Although the rollout of this has been slow, this has been deliberate as the goal is to ensure that their first co-op in North America is a success.

⁹⁵ Whyte, W.F. (1995). Learning from the Mondragon Cooperative Experience. William. *Studies in Comparative International Development*, 30(2), 58-67.

⁹⁶ Gibson-Graham, J.K. (2003). Enabling Ethical Economies: Cooperativism and Class. *Critical Sociology*, 29(2), 123-161.

⁹⁷ Clamp, C.A. (2000). The Internationalization of Mondragon. *Annals of Public and Cooperative*

Economics, 71(4), 557-577.

⁹⁸ Whyte, W.F. (1995). Learning from the Mondragon Cooperative Experience. William. *Studies in Comparative International Development*, 30(2), 58-67.

⁹⁹ Errasti, A.M., Mari, A., Heras, I., Bakaikoa, B., & Elgoibar, P. (2003). The Internationalisation of Cooperatives: The Case of the Mondragon Cooperative Corporation. *Annals of Public and Cooperative Economics*, 74(4), 553-584.

¹⁰⁰ Collaboration Agreement between MONDRAGON and the North American Trade Union USW (2009). Retrieved from:

<http://www.mondragon-corporation.com/ENG/Press-room/articleType/ArticleView/articleId/1351.aspx>

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g. Other factors

i. Training

An important determinant of a worker co-operative's success is keeping labour costs controlled and improving productivity.¹⁰¹ Training on how to achieve this is a critical component at Mondragon. In Mondragon, many workers are able to participate in a one-year training program in the Entrepreneur Division of the Central Inter-cooperative Fund. Others receive their education at Mondragon University. Here, engineering and business skills are learned in an atmosphere of co-operative values.¹⁰² These educational and training opportunities are funded internally through the 10% donations from Mondragon worker co-operatives' profits.¹⁰³ An estimated 90% of workers in Mondragon participated in educational activities in 2006.¹⁰⁴ Through this internal education system, Mondragon has instilled a culture of continuous improvement to help achieve success. Crucial to this is the commitment to constant debate and reevaluation of how a particular set of ethical principles will guide their economic choices and paths of action.¹⁰⁵ This has been crucial in allowing Mondragon to successfully adapt with changing economic trends over the years.¹⁰⁶

ii. Indivisible Reserve

Finally, another reason for the continued success of Mondragon is its indivisible reserve system. During Arizmendi's studies, he became interested in the ideas of Robert Owen and the Rochdale co-operative principles. Though profitable, the pioneer Rochdale cotton factory worker co-operative was privatized when its members via outside financing lost control of the co-op. The factory was subsequently converted into a private enterprise.¹⁰⁷ This reconfirmed the belief of many leaders in the co-operative movement who thought that the worker co-operative model was incapable of creating sufficient cash

¹⁰¹ Pérotin, V. A. (1997): What Makes Coops Work? Institutional Viability, Firm Creation, Survival and Closure Among Workers' Cooperatives in France. Ph.D. dissertation, Department of Economics, Cornell University.

¹⁰² <http://www.mondragon.edu/what-is-mu/why-choose-m-u>

¹⁰³ Gibson-Graham, J.K. (2003). Enabling Ethical Economies: Cooperativism and Class. *Critical Sociology*, 29(2), 123-161.

¹⁰⁴ Richleycase, B. (2009). A Theory of Socio-Business Diffusion: Understanding the Influence of Mondragon Corporation Cooperativa as a Positive Force for Change at the Intersection of Business and Society. Unpublished doctoral dissertation, Western Reserve University.

¹⁰⁵ Whyte, W.F. (1995). Learning from the Mondragon Cooperative Experience. William. *Studies in Comparative International Development*, 30(2), 58-67.

¹⁰⁶ Freundlich, F. (1998). Mondragon Cooperative Corporation (MCC): An Introduction. Partner Ownership Associates, Inc., Bilbao, Spain. Retrieved from:

http://www.clcr.org/publications/other/Intro_To_Mondragon.doc

¹⁰⁷ Whyte, W.F. (1995). Learning from the Mondragon Cooperative Experience. William. *Studies in Comparative International Development*, 30(2), 58-67.

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flow and was doomed for failure.¹⁰⁸ The result was a great setback for the worker cooperative movement.

Arizmendi took a lesson from this experience and created a co-operative structure that did not issue stock to members or investors. Instead he created a series of capital accounts, where between 30% and 50% of the profits in Mondragon went into an indivisible reserve fund. This fund provides much needed liquid capital for Mondragon co-operatives. In addition, since the indivisible reserve fund cannot be transferred outside of the co-operative movement, it ensured that Mondragon was extremely unlikely to be converted into a private business. For if Mondragon dissolved or was converted into a for-profit company, the indivisible reserves would not be divided among its members. Instead, the indivisible reserve funds would be donated to another cooperative. This is particularly important during difficult financial times or when older workers are retiring and members cannot be found to replace them.¹⁰⁹ Without the indivisible reserve, Mondragon could have been sold out to private investors long ago, especially considering its profitability. Instead Mondragon remains a viable system of worker co-operatives that provide decent paying and stable jobs. It is a collective good, whose gift will be there for workers well into the future.

h. Analysis

A Yes! Magazine article from the summer of 2009 described life in Mondragon:

“One of the first things you notice while driving from the Bilbao Airport toward the town of Mondragon is the unspoiled beauty of the countryside—rolling green hills uninterrupted by billboards, and smooth roads untarnished by potholes. In the town of Mondragon, there were neither mansions on the hill nor poverty in the streets. We didn’t see wealth, but everyone had a comfortable place to live, healthy food to eat, and the comfort of modern conveniences. Equally noticeable was their convivial, even joyful sense of community. The people we met were friendly, conversational, and trusting. Mondragon is proof that a commitment to the common good is not an obstacle to commercial success. Instead, a dedication to innovation and training at all levels can

bring forward the best of the community. That quality of life continues outside the workplace, multiplying the benefits for those who choose a cooperative path.”¹¹⁰

From being founded by a rural priest with a transformative vision, the Mondragon Co-operative Corporation has succeeded by building all of the required elements to create a powerful regional worker coop system: training and education, research, and their own banking system. They have done this by prioritizing employment, and solidarity, showing that excellent business practices can be compatible with a strong values-based, co-operative approach.

¹⁰⁸ Flessati, Dominic. (1980). The Mondragon Experiment. BBC - Television.

¹⁰⁹ Whyte, W.F. (1995). Learning from the Mondragon Cooperative Experience. William. *Studies in Comparative International Development*, 30(2), 58-67.

¹¹⁰ Kelly, G. & Massena, S. (2009, June). Mondragon Co-operatives Decide How to Ride out a Downturn, *Yes! Magazine*. Retrieved from www.yesmagazine.org/issues/the-new-economy/mondragonworker-cooperatives-decide-how-to-ride-out-a-downturn