



# SOUTHERN NEW HAMPSHIRE UNIVERSITY

## **The Evolution of Management in the Mondragon Cooperatives\***

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## **The Evolution of Management in the Mondragon Cooperatives**

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### **Introduction**

The Mondragon Cooperative Corporation (MCC), a system of worker cooperatives located in the Basque country of Spain, is still considered to be one of the most significant models of worker ownership and community economic development, in the world. In the 1970's, the pressing problems of plant closures with the shift from an industrial based economy to the global and information based system which now prevails led many of us to see Mondragon as a model that could truly address many of our economic challenges. The MCC's goals of local control and ownership of resources coupled with a commitment to the cooperative principles resonated with the desire to create greater democracy in the workplace and better quality jobs that would not disappear when the corporation saw cheaper labor pools elsewhere. In the field of community economic development, where we have experienced the effects of global capital shifts and the uncertainties of federal funding, Mondragon stands out as a model that was developed without a reliance on subsidized funding and continues to be locally owned and controlled. For this reason, it has had tremendous appeal as a model for building local economies.

The Mondragon Cooperative Corporation founded its first enterprise, Ulgor in 1956. The group has grown and been economically able to adapt and respond to the development of the global marketplace. The formal organizational structure of the inter-cooperative relationship has also grown more complex over time. How that structure and management systems have changed is the subject of this article.

The structure of the Mondragon Cooperative Corporation has evolved over time in response to the needs of the cooperatives and in response to external factors. The basic building blocks of the system have not changed dramatically since the inception of the first cooperatives, but the superstructure of the group has. This article traces the cooperatives from the inception of the first cooperatives to its current form as a Cooperative Corporation. The significance of the changes is best understood by tracing the evolution of the federated structure of the associated cooperatives from their inception within the context of the historical and market factors that influenced the form of association. Changes over the years are examined in this historical overview with a focus on how the cooperators have viewed their mission, the

qualities desired in managers and workers, and the internal and external factors, which have influenced them over time.

### The Mondragon Cooperative Group Today

The Mondragon Cooperative Corporation (MCC) is a highly complex federation of cooperatives bound together by much more than a formal contract of association. Currently, the MCC is comprised of 135 firms. Of these 91 are worker cooperatives and 44 are holding companies that are partly or jointly held by the cooperatives. The cooperatives employ a majority of members but also employ some contract workers, and some unionized workers in the Basque country. Overseas, all workers are managed based on the norms of the country where the plant is located. Workers and managers in the overseas firms are typically not membership track employees of the MCC.

**Table 1.<sup>1</sup>**  
**EVOLUTION OF THE NUMBER OF**  
**COOPERATIVES IN THE MONDRAGON GROUP**

	1956	1965	1976	1984	1990	1996	2003
Industrial Group	1	14	56	94	87	67	135
Financial Group	-	1	2	3	5	5	6
Distribution Group	-	4	5	10	9	6	14
Housing	-	-	14	17	*	9	9
Services	-	2	2	17	17	10	16
Research, education & training	1	1	32(3)*	45*	9*	35(11)*	14
Total	2	22	114(82)	186	127	143(108)	194

\*Housing cooperatives and ikastola, Basque language schools were not reflected in the banks list of affiliates for a period of years but reappeared in 1997.

<sup>1</sup> The CLP developed housing cooperatives and ikastolas or Basque language schools and listed them as affiliated cooperatives. These continue to be listed in the CLP's lists of affiliated cooperatives. With the reorganization as the MCC in 1990, housing and ikastolas, were not included in the MCC's literature. The number in () represents those educational institutions of higher education which continue to be part of the MCC, where the ikastolas are included in the list. Several sources from the Mondragon Cooperatives were used in the development of this table. *Nuestra Experiencia Cooperativa*, 1979 and 1985, and *Memoria CLP* 1966, 1981, 1997; *Mondragon, Forty Years of Cooperative History* (1996) and J.M. Ormaechea (1993) *The Mondragon Cooperative Experience*; Mondragon Corporacion Cooperativa, Annual Report 1996, 2002.

The group now operates as a large multinational with both worker members and nonmember workers. Contrast this with the structure prior to their global investments. In 1982 when the first of the fieldwork for this study was undertaken, the system was comprised of one hundred and seventy cooperatives with a common historical experience, cultural identity and social and economic goals. Ninety percent of all workers in the cooperative group were worker members and became worker members within three to six months after a probationary period (Ulgor, Estatutos Sociales, 1975:5). Now, there is not necessarily the same common bond felt by all workers, since not all workers are members of the cooperatives. As these numbers suggest, the as the system of cooperatives have become more complex, the skills and training requirements of managers have increased.

Cooperative law allows for as much as 30% nonmember workers. The cooperative structure was intended to insure that ultimate authority would always remain in the hands of the members of each individual cooperative while the creation of the superstructure intended to provide them the benefits that can be realized by the economies of scale of larger firms. Through an examination of the various stages, the evolution of not only the structure but also the external environment is considered.

### **Phase 1: The Startup 1941 - 1956 Out of the Ashes of War**

The Mondragon story actually begins not with the industrial cooperatives but with a dedicated group of young men and a young priest committed to building a better community out of the ashes of the Spanish Civil War. In this first phase, it was the local and national environment which dominated in the structuring of the first cooperatives. The postwar period left Mondragon with shortages of food and fuel, according to José María Ormaetxea (1997), one of the founders of the Mondragon cooperatives. The Basque region suffered for the role it had played in the Civil War because it sided with the Republican government in opposition to Franco. The valley of Alto Deva was a battle field from September 1936 to April 1937. Military installations in Mondragon were bombed as were other parts of the Basque region. (Ormaetxea 1997, 31)

The region suffered from scarcity and hunger at the end of the war. Many basic goods such as wheat, cooking oil, and coal were rationed. Indigence and tuberculosis were serious problems (Ormaetxea, 32). Heiberg, in *The Making of the Basque Nation* (1989: 92), described this as a period of political and cultural humiliation for the Basques, due to their alliance with the Republic in the Civil War. Vizcaya and Guipuzcoa were declared traitorous provinces after the war. This resulted in the revoking of their fiscal autonomy, which had been assured under the foral regime, local laws and customs dating back to the thirteenth and fourteenth centuries (Heiberg, 1989:20 - 23). Most important of these laws were the *fueros*, which were guarantees of exemption from state imposed taxation and Spanish custom duties. The *fueros* continued to be honored by the Franco government in Navarro and Alava, the two other Basque provinces because of their allegiance to Franco during the war.

The post war Spanish economy was a disaster. According to Heiberg (92),

Spain's shattered economy was largely dependent on agriculture; 183 towns, including Madrid, Barcelona and Malaga, had been devastated. 75% of Spain's bridges were unusable. Production of cast iron and steel had slumped almost 50% in relation to 1929. The Spanish treasury was totally depleted. The revenue of the new regime had dropped to levels below that of 1900. The reconstruction of Spain was gravely hampered by the commercial disruption of the Second World War. In addition, Spain suffered from rampant corruption - as government officials conducted a profitable trade in materials and import licences - lack of raw materials, lack of foreign assistance, lack of trained staff and low morale. Nevertheless, due partly to the international boycott imposed in 1946 and partly to its ideological preferences, the regime embarked on an ambitious policy of economic self-sufficiency.

Franco's government pursued a state run policy of reindustrialization. The Spanish Ministry of Labor set wages. Trade unions and labor strikes were forbidden.

Heiberg, citing Payne (1969: 55-56) credits the Basque Autonomous government led by Jose Antonio Aguirre and the Partido Nacionalista Vasco (PNV) with the successful protection of the Basque heavy industry during the fall of the Republic. The Socialists wanted to sabotage it to prevent it from falling into Franco's hand.

The policy of autarchy provided an enormous opportunity for the Basque country. The mass destruction of industrial installations and infrastructure characteristic of the rest of Spain had not occurred in the Basque region, thanks mainly to the batallions of *gudaris* (soldiers) posted by the PNV to protect Basque heavy industry from left-wing sabotage. For the regime the protection of Spain's industrial sector was of utmost necessity. The protection of Spain's industrial sector meant the protection of Basque industry. This industrial base gave the Basque economy an overwhelming initial advantage which produced the second great boom of Basque industrial expansion. Since Spain was in need of almost everything and since the government insisted on the substitution of imports with home produced goods, all goods manufactured, regardless of how poor in quality or overpriced, had an ensured market. Individuals with access to capital turned immediately and profitably to manufacturing. Throughout Vizcaya and Guipuzcoa, the building of small family-owned factories and industries proceeded at an enormous rate. The profitability of capital was reflected in the dividends paid out by the banks, which from 1943 through the 1950's averaged 11%. (Heidberg: 55-56)

Franco's goal was to create a unified Spain. His physical punishment of the Basques according to Heidberg (90) was restrained since Franco required the goodwill of the Basque industrialists. Basque culture and language were regarded as symbols of separatism. Cultural repression was severe. According to Heidberg (90), "The public use of Basque greetings, traditional garments, folklore, Basque

names, publications and the teaching of Euskera were strictly forbidden.” Basques who spoke no Spanish could be arrested as subversive if heard speaking amongst themselves in Basque. These restrictions were enforced by a highly centralized regime “through a vast, byzantine administrative and military apparatus. . . (Heidberg, 91)”

The Basque Catholic Church which had historically ministered to the *euzkaldun* (Basque speakers) in Basque were now forced to minister only in Spanish. The majority of priests in the Basque country came from rural *euzkaldun* areas. Heidberg (104) notes that while many priest left the Church because they were disenchanted with the Carlist minority’s control and support of Franco, there was no other institution in Spain that could provide sanctuary for socialist and nationalist aspirations.

Mondragon was a town of 7,300 inhabitants. While it was located in a largely rural and agrarian zone, it had a strong tradition of mining and industry in the town. (Ormaetxea, 32) Mondragon was a company town, dominated by the Uni6n Cerrajera. It was this political and economic climate in which the cooperatives were started.

Drawing inspiration from the Catholic Action Movement, Don Jos6 Mar1a Arizmendiarieta, a 26 year old priest and journalist, began in 1941 to form study circles with youth from the community of Mondragon to identify local problems that they could work to resolve. Catholic Action was a social movement that originated in Belgium, and was dedicated to social reform, guided by Christian social doctrine.

Alfonso Gorro6goitia is one of the founders of the MCC and also one of the early youth leaders in the Mondragon Catholic Action movement. He described the conditions under which they operated.

It was a totalitarian regime, dictatorial in the first postwar period. . . Then there was no political action; there was no trade union activity. For Don Jose Maria, there was only the option of forming systematically a realistic cause, a cause with hope. Once cannot live without hope, a horizon. And so, he introduced a simple problem. To these young men that could not focus on political nor trade union activities, let’s focus on the resolution of problems that always reoccur in the community (Gorronogoitia, interview, 1982).

By the end of the first year, the Catholic Action group had organized a lending library in the offices of Catholic Action, developed a number of activities for youth and worked on local festivals.

In a report to the diocese, Father Arizmendiarieta, discussed his goals for educating the young working class people of Mondragon.

A professional development center would greatly assist the improvement of the most capable and the most prestigious of the youth. These youth should possess the same culture as that given in the school, to not be afraid and cease to be under the pagan mentality that dominates the labor force. They should be able to discuss and critique the “workplace dogmas” that constitute a labor creed. In the school and with the counselors or professors, one needs to find the solution or the light. Even if they are resentful, one needs to restore them with the treatment established in the schools with other better companions and more firmly. These schools if well directed can construct a better base for Catholic Action or a priest to be effective with the labor force.

From them will emerge a training school of prestigious men for the same technical and professional knowledge that are called to occupy the administration of those same worker movements. (Don José María Arizmendiarieta, Cuestionario sobre organización de la acción católica de la diócesis de Vitoria. 18 de enero 1945 in PRIMERAS REALIZACIONES: 1ª parte)

In an undated writing, titled *Mondragón Al Día Cara Al Futuro*, Father Arizmendiarieta summarized the role of the Catholic Action Center:

But the Center what does it want to represent as a social institution of Mondragon? A dynamic present committed to the cause of the affirmation of the intelligence and collaboration of all our men.

The key to our future is not the revolution or conservatism, it is the noble calling to the demands of the time, by virtue of the ample educational action and the process of association that integrates men as brothers in whichever field of application.

The people and communities just like the flowers and other species live and triumph not alone but in groups. (Arizmendiarieta: 21 - Reseña Histórica Publicada En 1963, PRIMERAS REALIZACIONES: 1ª parte 108)

The first organization to develop was the Professional School, which was initiated in 1943 with the help of a local philanthropic foundation, Fundación Viteri, local business owners, workers, institutions and the municipal government. When land used by the Juventud Deportiva (Youth Sports Association), was no longer available as a playing field, a second initiative was the acquisition of a loan from local employers in 1944 for the purpose of developing sports facilities and playing fields on 31.176 square meters of land and the formal incorporation of Juventud Deportiva as a separate community organization (F.Ormaetxea,p. 19 and Arizmendiarieta, 21 - Reseña Histórica Publicada En 1963, PRIMERAS REALIZACIONES: 1ª parte p.146).

Juventud Deportiva was organized in diverse sections: folkdance, theatre, soccer, jai alai, and mountaineering, summer excursions, etc. Fundraisers were organized such as raffles, and card games to support these activities (Arizmendiarieta, 21 - Reseña Histórica Publicada En 1963, PRIMERAS REALIZACIONES: 1ª parte 139).

Local youth and alumni of the Professional School who were committed to the Catholic Action Movement started this.

The League of Education and Culture (Hezibide Elkartea) was started in 1948 for the purpose of giving the parents' association of the Professional School legal standing. This would enable the school to be eligible for national educational subsidies. The League had four classes of members: anyone who wished to join the association; active members who paid monthly dues or service; financial sponsors; and honorary members such as local authorities (Whyte & Whyte: 1988, p.30). The school was now gaining political acceptance from local political authorities.

The presence of the school insured a steady source of technically trained youth who could assume roles within the Mondragon cooperatives as they began to develop in the 1950's and 60's. By 1952, the Eskola Politeknikoa had secured a new building and had 200 students. In 1956, they were able to open a student residence hall. The evolution of the League into a cooperative entity would not occur until 1960.

The Eskola had by this time adopted its three main characteristics:

1. Students divided their time between work and studies.
2. The activity of recurrent education
3. The adoption of a labor calendar rather than a school calendar for the students.(F.Ormaetxea: *Textos Basicos de Otalora, Capitulo XII, "Eskola Politeknikoa Jose Maria Arizmendiarieta Sdad. Coop."*, p.20).

The Unión Cerrajera became the focus of concern when the company attempted to reduce its labor compensation.

Between 1949 and 1950 there was social turmoil in the heart of the Union Cerrajera. The company, weighed down by an excessive number of workers off sick, decided to modify the corresponding benefit in such a way that... 'workers with an average salary of 30 to 35 pesetas a day would have their wage reduced to 10 to 14 pesetas, less than 30% of their real wages. . (Ormaetxea 1993, 18).

Despite the prohibitions against labor strikes, there were the first labor strikes of the Franco era. The co-op founders as supervisors in charge of workshops, publicly supported the workers' cause and in opposition to top management and the Board. When Gorroñoigoitia and Ormaetxea were called in to the manager's office to explain themselves, the founders realized that it was not possible to bring about change within the company (Ormaetxea,1993:18-19 and 1997: 39 - 41; Gorroñoigoitia,interview, 1982).



In this first period of Catholic Action activity, the founders had successfully developed their entrepreneurial skills, established themselves as leaders in Catholic Action, and established their credibility as “doers” who could successfully implement projects. This leadership is consistent with what is referred to in the literature as social entrepreneurship. According to Bygrave and Minniti (2000: 27), “an entrepreneur is someone that recognizes an opportunity, acts on it by creating an organization, and, in the process, risks a significant amount of personal wealth”. Bygrave and Minniti (2000: 25) make the case for how individual level entrepreneurship when linked through a network to other entrepreneurs makes the conditions for new markets to develop and creates greater entrepreneurial activity and economic growth than is proportional to its relative size.

The Mondragon experience in its early development created conditions, which would foster entrepreneurship. The emphasis on building educational capacity for training the leadership created a steady pipeline for building new entrepreneurs and effective management skills. The fact that it was situated within a faithbased initiative grounded in Christian Humanism cast it in a social entrepreneurial and cooperative approach that was pro labor and pro-Basque.

## **Phase 2: The Creation of the Mondragon Group 1956 - 1965**

### **Values to Drive a Vision**

When efforts to reform, the Union Cerrajera, the local company that dominated employment in Mondragon, failed, the co-op founders decided to form their own company based on their social and economic values of Christian Humanism. In 1956, the first cooperative was started. The group began with one firm, ULGOR, which was started with the help of the Catholic priest, Don José Maria Arizmendiarieta. Mondragon’s cooperative enterprises were developed in a post-war economy where businesses did not have to be very good to succeed. This economic environment was very favorable to the startup of new cooperative firms in the early years.

The repression of Basque culture, particularly the language, *Euskera*, served to coalesce the desires of the founders of the Mondragon group to develop a strong local economy as an expression of Basque nationalistic aspirations. Basque culture was historically based on bonds of universal nobility and egalitarianism and formalized in the *fueros* for Vizcaya in 1526 and Guipuzcoa in 1610 (Heidberg, 26). Heidberg explains this in terms of early Basque nationalism expressed in the work of Manuel de Larramendi, a Jesuit priest in his *Corografía de Guipuzcoa*. Larramendi attributed nobility to the land and those who worked it. “The traditional *baserritar* cultivating the land and governed by the rural values of austerity, social harmony and egalitarianism in social relations was for Larramendi, the original Basque in a state of grace (Heidberg, 33). Heidberg (185) summarizes those baserri values as expressed by nationalists in her anthropological study of Elgeta, a village outside of Mondragon as: the dignity of work, religion, honesty, egalitarianism and individual autonomy. According to Luis C. Nuñez, in his book, *Clases sociales en Euskadi* (no date:124),

the philosophy of the Mondragon cooperatives is imbued with the values of the farmers and above all the workers and artisans of the industrialized rural and semi-urban zones of Guipuzcoa and Vizcaya (excluding the capitals). There it nurtured and grew dynamically and creatively, with initiative and entrepreneurship, aligned with work, valuing the organization and discipline, a spirit of saving and in opposition to all wastefulness, with a collective feeling of love of the Basques, and appreciation of work well done, skeptical of a top down Socialism . . .

Nuñez goes on to characterize the Mondragon group as having strong local labor roots, a democratic internal ideology but without a confrontational approach to capitalism and the terms of market economies. “they are mindful of the efficient functioning of the cooperative enterprises and the welfare of the workers relies on their ability to function within the norms of the market economy”(Nuñez:125). This social entrepreneurship was critical to the successful development of Mondragon as a model form of industrial cooperative democracy.

### **The First Industrial Cooperatives**

The first enterprise, Ulgor, was started by five “pioneers,” Luis Usatorre, Jesus Larrañaga, Alfonso Gorroñoigoitia, Jose María Ormaechea, and Javier Ortubay. All five had been given advanced training as industrial technicians in Mechanical Engineering. Given their dissatisfaction with the Unión Cerrajera after it had cut wages thirty percent and management’s unwillingness to improve working conditions, they sought to put their idealism to the test by starting their own business.

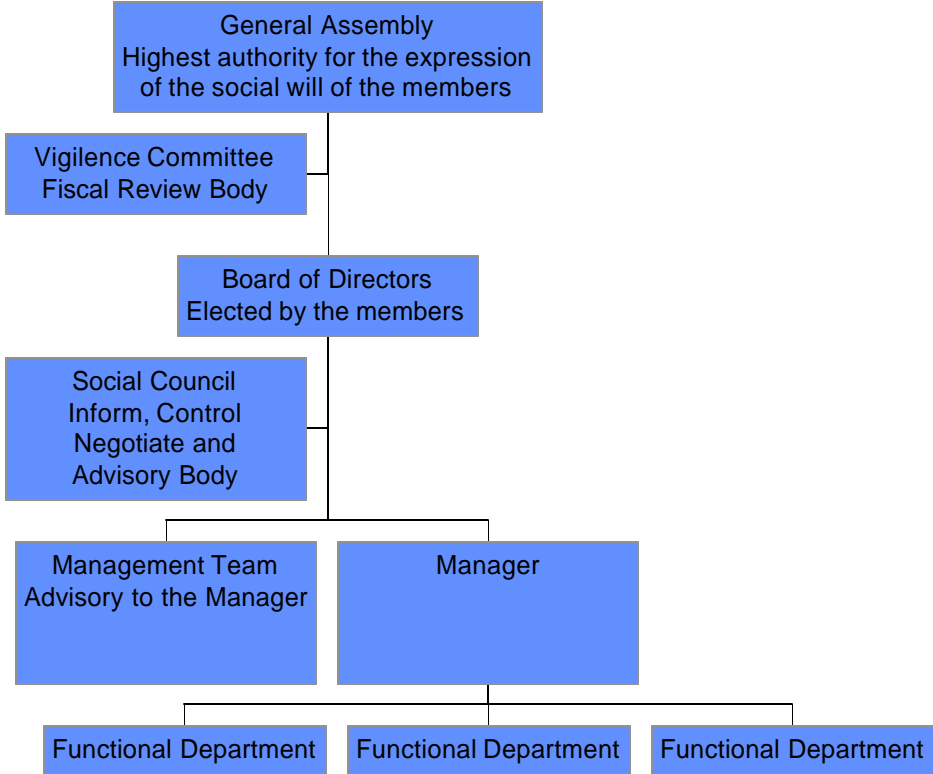
After one unsuccessful attempt to approach a local bank with a business plan for a startup and the introduction of government restrictions on new industrial startups because of electrical shortages, they concluded that it was preferable to purchase an existing enterprise. A retiring industrialist who’s business was devoted to the production of oil stoves agreed to sell his business for Ptas 400,000 (the equivalent of 10 million pesetas in 1996 (Ormaetxea: 1997, 55). The purchase was financed by a loan from the Bank of San Sebastian and cosigned by José Ruiz Torre, a pharmacist; and Juan Azcoaga, the “painter.” Both were made members of the firm along with the banker who made the loan, Manuel Larrañaga. Ownership of the business was transferred to the five in October, 1955. The business, which had been located in Vitoria, was moved to Mondragon in April 1956. By the end of 1956, Ulgor employed 24 members. This increased to 47 members by the end of the second year.

Ulgor started their business with butane heaters and stoves, oil heaters and electronic products. The founders studied different enterprise models. In 1959, they filed the company’s legal statutes as an industrial cooperative (Ormaetxea: 1997, 41 - 44 and Ormaetxea: 1993, 21 - 23). During the same period, two other industrial cooperatives were founded: Arrasate, a machine tool and tooling company; and Funcor, a forge and foundry. Arrasate was established in Mondragon in 1957 with 40 employees. Funcor, located in a neighboring town, Elorrio, started with 38 workers in 1956 in the manufacture of agricultural machinery.

The founders of the cooperatives had a vision of creating their own firms where they could avoid the bureaucracy so widespread in Spanish enterprise (Ormaetxea private interview, 8/10/82). As a result, the founders opted to develop a number of smaller firms rather than to develop one larger firm with several divisions. José María Ormaetxea described how this occurred: “We made three divisions, the electrodomestic division, the electronics division and the foundry. Ulgor(now called Fagor) is the former electrodomestics division; Fagor Electronica is the electronics division and Ederlan is the foundry. This occurred between 1956 and 1960.” In each case, new products were developed starting with the purchase of a license to manufacture a product established in other European countries.

Ormaetxea explained “We saw that the firms continued to grow and we continued to divide them.” In this way, the Mondragon group created between 1956 and 1964, Ulgor and Funcor (1956); Arrasate (1957); Copreci and Ederlan (1964). Many more cooperatives were to follow.

Table 1: Worker Co-op Basic Structure



Source: Alfonso Gorrionogitia, “La Organizacion Interna de una Cooperativa” Textos Basicos de Otalora, Capitalo III (n.d.).

The success of the Mondragon cooperatives encouraged others to form additional cooperatives.

This small bit of history was full of stutterings. It was the period when URSSA of Vitoria was created by people from Mondragon, by assimilating the legal formula which Ulgor had adopted with

success, and Vicon was set up in San Sebastian by members of HOAC (a Workers Organisation run by the Catholic Church), also based on the Mondragon model.”(Ormaetxea, 1993, 90).

They were informally connected to one another through their association with Catholic Action and the priest, Don José María Arizmendiarieta. They also shared resources and coordinated some of their activities with each other.

The post Civil war dislocation, and the Catholic Church’s concerns about unmet needs of Basque youth and labor drove the first phase of the development of the cooperatives. These factors would lead the priest and a group of young men to pursue their vision of workplaces grounded in Christian Humanism. The leadership lacked specific training in cooperatives. Their business management reflected the management methods modeled in the farm and business community governed by the rural baserri values of austerity, social harmony and egalitarianism in social relations. This is the cultural and religious foundation of their entrepreneurship. Managers typically had little more than the equivalent of an associates degree in engineering.

This period was characterized strategically by the leadership's commitment to new job creation and the belief that cooperatives were a morally superior organizational form in which to work. The creation of support cooperatives was seen as necessary to furthering those goals. The Taylorist model of Scientific Management characterized management in this first phase. Work was structured in assembly lines characterized by job specialization and routinization of the jobs.

### **More than Manufacturing**

Consumer cooperation grew rapidly during this same period in the area around Mondragon, according to Arizmendiarieta (Caja Laboral Y Grupo Asociado: 1ª parte ,17 ). Father Arizmendiarieta founded the Cooperative San José de Mondragón in 1956 as a consumer cooperative comprised of 400 members and two branches with a central location in the heart of Mondragon.

Perhaps the greatest innovation in the development of the cooperatives came with the decision to develop a credit union, which would serve both consumers and the newly emerging Mondragon cooperatives. The creation of the Caja Laboral Popular (CLP) in 1959, created an institution with financial, social and entrepreneurial goals.

It became the hub for formally linking the cooperatives to each other. Unlike the industrial cooperatives that were primary cooperative societies where the workers were the members and all members were workers, the CLP, as a support cooperative, developed a hybrid form of ownership with both workers and affiliated cooperatives as members. Arrasate, Funcor, Ulgor and the consumer cooperative, San José (which later formed part of Eroski, a retail consumer/worker cooperative in 1971) were the

founding affiliated cooperative members. The CLP opened its first office in 1960. Historically the bank required all cooperatives to agree to bank exclusively with the CLP; submit periodic reports to the CLP and be subject to CLP auditors; adopt standardized bylaws as a worker cooperative that prescribed the compensation system, governance and economic structures. This system subjected all firms to management review and intervention in times of crisis.

The CLP was seen as a way of insuring that the cooperatives would have the capital necessary for their needs. According to Alphonso Gorroñoitía, former president of the CLP and Ulgor, the cooperatives would also have the benefit of a coordinating harmony to their efforts as a cooperative movement (Ormaetxea: 1997, 271). The bank consisted originally of three divisions: the Banking Division, the Managerial Division, and the Social Division. The Banking Division was designed to manage all the conventional banking operations such as branch offices, and commercial portfolio management. It channeled local savings into the bank for investment in the cooperatives.

The Managerial Division provided technical and entrepreneurial services related to the creation of new cooperatives, intervention in troubled firms and the expansion of others. The CLP began to promote the creation of new cooperatives in 1962. In each case, according to Ormaetxea (1993, 97-98), a contract of solidarity would be established with the new cooperatives “promoters” which would allow for the creation of a cooperative group that would handle higher level, more complex management functions. The CLP would determine the technical and economic necessities and appoint the management for the new firm. The managing director of the CLP would serve as the managing director of the cooperative. The CLP would have a 20% interest in the firm. CLP would be paid for all its expenses and 5% of the firms’ profits. Between 1962 and 1965, this start up model was used for the creation of: Lana, a dairy and wood product manufacturer (1962); Soralue, a machine tool manufacturer (1963); Copreci, components manufacturer (1964); and Ederlan, a foundry (1964).

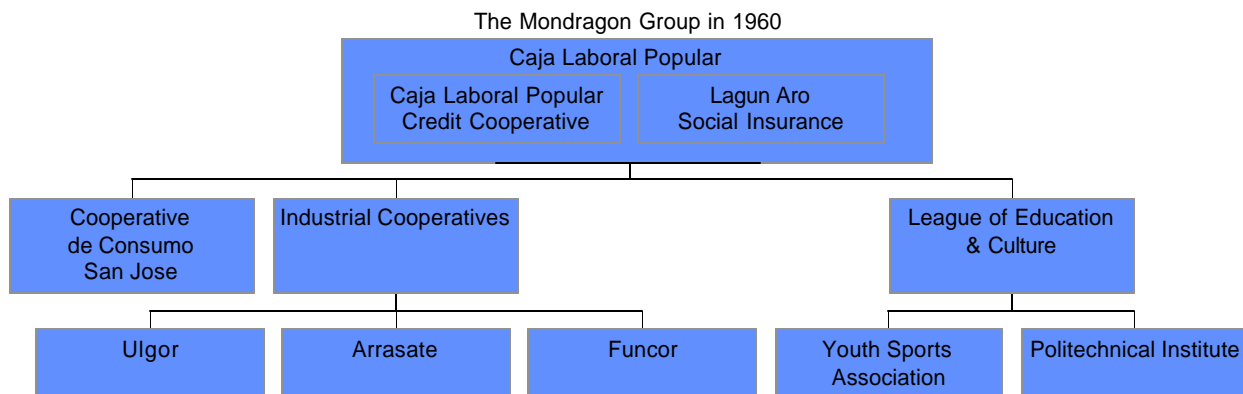
The General Services Division managed personnel, food services, buildings and equipment, services and programs for the individual worker members, and the public. Technical assistance was provided to the co-ops and other institutions through the technical department regarding urban planning and construction projects.

Due to the bank’s central coordinating role, new cooperatives were formed and a cooperative network emerged during this first period. While some new cooperatives were the result of startups or converting existing firms into cooperatives; others were spun off from existing cooperatives. In the first 10 years of their existence, the cooperatives successfully created 4,211 jobs in the region. They had total investments of 580 million pesetas and sales of 1,708 thousand million pesetas.

This period was characterized strategically by the leadership’s commitment to new job creation and the belief that cooperatives were a morally superior organizational form in which to work. The creation of support cooperatives was seen as necessary to furthering those goals. Christian humanism, cooperativism and Basque nationalism all played a role in defining and motivating the Mondragon cooperators. Rural out migration, Franco’s economic and social policies, and the emergence of the Common Market were important external factors that influenced the cooperatives in this phase of their history.

Most significant in this phase was the development of the bank and its role in fostering entrepreneurship. The Politechnical Institute provided professional and technical education for students who would then enter into work with the new cooperatives. Seed capital for the new ventures was generated through the Caja Laboral and the social insurance funds (health and disability insurance and retirement funds) in Lagun Aro, then a part of Caja Laboral Popular.

**Table 2: The Mondragon Group in 1960**



**Phase 3: The Glory Years - 1965 to 1980**

Father Arizmendiarieta summarized the achievements of the Mondragon Group in 1966 in a reflection on the fifth anniversary of the founding of the Caja Laboral. He made the following observations:

Five years ago, there were four cooperatives, the ones that founded our institution [CLP]. It grouped 315 members. At the end of 1964, the membership census for the cooperatives totals more than 3,000 and there are 23 associated cooperatives.

Today the areas occupied by the factory facilities occupy 80,000 square meters and acquired lands are almost 600,000 square meters. These are provisions taken to guarantee the long-term needs of our firms to insure that the social cooperative promotion not be cut short by insufficient long-term perspective.

The management of the associated cooperative of the Caja Laboral have registered sales that are 20 times greater than those realized in 1959. The pace of accumulated growth is 30% in the period 1963 - 1965.

Eleven industrial parks have been established: two in Mondragon, one each in Vergara, Arechavaleta, Escoriaza, Irún, Elorrio (Vizcaya), Ormaiztegui, Urdiain (Navarra), Vitoria (Alava), Oñata. Two others have been promoted in Mondragon with an urban designation.

The most significant production has been in the following sectors: machine tools, specialized machines, civil machinery, agricultural machinery, gray and malleable foundries, injectable foundry, plastics, metalworking, tubular scaffolding, auto bodyworks, towing and transports, electronic components, measuring, control and security instruments, dairy processing, housing construction, die stamping, press and injection, stamped pieces and components, fine tooling, automobile parts and accessories and specialized machinery components.

The intensity of the intervention in each of the industrial sectors in the production of consumer goods in the short and long term encounters its equilibrium through the moderating action of Caja Laboral with regard to distinct and complementary or related programs to avoid torpor or discriminatory actions. (Arrizmendiarieta 1965 93) - Un Lustró De Caja Laboral Popular. 1965 Caja Laboral Y Grupo Asociado: 1ª Parte 93 De 290)

This second phase was characterized by tremendous growth in the number and size of the cooperatives. This was a period of great prosperity in the Mondragon Group. The workweek in most co-ops was reduced to a five-day workweek. Average earnings in the cooperatives for most rank and file workers by 1980 outpaced those of workers in non-cooperative firms by ten percent (Caja Laboral Popular, "Remuneración de directivos en el grupo cooperativo asociado," (July 1982): vii-viii.). Earnings were still kept within a one to three ratio for the lowest to highest earnings.

After a period of strikes in some of the cooperatives in 1965, the cooperatives instituted some changes in the internal structure of the cooperatives to provide for greater shop floor participation through the Social Council<sup>2</sup>. The cooperatives concluded that it was important to limit the size of cooperatives. They concluded that firms should look for ways to limit their membership to a maximum of five hundred members (Thomas and Logan 1982: 35).

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<sup>2</sup>Any cooperative with more than sixty members was required to establish a Social Council. Those cooperatives with a President and management committed to the effective use of the Social Councils found they were a very effective advisory group that was also a useful place for training new leadership. In the majority of cooperatives during this period, members and management struggled to realize the council's full potential. Whyte and Whyte (1988) and my own research in 1982 found that the social council was typically underutilized as a tool for workplace democracy.

Thomas and Logan (1982:35-36) also cited the management system as an issue in provoking the strikes.

Another factor was Taylorism, i.e. scientific management. Study teams examined Scandinavian methods of assembly operations carried out by autonomous work groups, with maximum discretion as to how individual members undertook their part of the overall task. Despite the favourable report brought out by the study teams, however, Ulgor workers were unhappy about such an innovation and expressed a preference for the assembly line. Their reservations were due in part to uncertainty about the transferability and the cost of the new methods.

The most significant change in the management system at this time was the effort to reduce the size of firms and the development of cooperative groups. In 1964, the first district cooperative group was established, ULARCO (now called FAGOR) by four of the first cooperatives: Ulgor, Arrasate, Copreci, and Ederlan. The cooperative group was established as a private association and regulated by a multilateral contract. Through such an association, the co-ops felt they could enjoy the benefits of shared resources without the problems of large-scale organizations.

The purpose of the group was to provide coordination rather than to direct the cooperatives. There was some controversy over the extent to which the cooperative groups should play an executive rather than staff role. The FAGOR (ULARCO) district group played an executive role when a cooperative was in financial trouble. This would become more of an issue in the next stage as the recession deepened.

FAGOR served as the model for inter-cooperative solidarity. The FAGOR group shared a common job ranking system. They pooled their risks/benefits from their profits/losses. They agreed to joint services in such areas as personnel, marketing, new product development, economic and financial services. FAGOR added a fifth cooperative, Fagor Electronica S.C.I. in 1965. It eventually grew to thirteen cooperatives. No new groups were developed until the recession pressured firms to look for new ways to obtain economies of scale.

The ORBIDE, LEARKO and GOILAN groups were founded in 1978, thirteen years after FAGOR. One of the founders of LEARKO recounted how his group was founded.

There was a small contingent of guys with some experience that founded Cikautxo. They began Arrasate-Markina and Eika. They had in good measure lived the cooperative reality of Mondragon in the Mondragon cooperatives from within. That facilitated the act of creating them without much discussion of the model or of this or that since we knew what was there and we wanted something similar without inventing it anew. In fact, I would say this facilitated things since there were 3 cooperatives and then 2 others were founded.



So then what? One cooperative does a little better than others and has a higher return. Well all the co-ops are near each other but there were no commercial links between them. Certainly there were social links because of their proximity and additionally because they were so few. Given that there was a precedent and that the group, FAGOR, had grouped itself effectively and resolved many questions, the presidents and managers began to unite themselves. Since they had been students together in Mondragon, they had the awareness that a cooperative group could resolve problems or help resolve them.

Two changes occurred at the level of second degree co-operatives.<sup>3</sup> The Mondragon group also saw the need to develop a Center of Technological Investigations. The center, called Ikerlan was created in 1977 and like the CLP became a support cooperative with a hybrid membership comprised of both worker and organizational members. Its research staff was committed to advancing the technological edge of member firms through product innovations, new more efficient means of production such as robotics and greater applications and efficiencies in the exploitation of materials. The Social Division was spun off in 1969 with the name Lagun Aro. Lagun Aro provides medical services to individual co-op members and is the social security system for the Group's cooperators.

These efforts required a tremendous commitment of resources by the CLP and associated cooperatives as they sought to create more cooperatives each year and to develop the infrastructure of buildings and industrial parks to house these activities. These efforts began to slow in the mid 1970's as several key firms began to experience difficulties. Copreci, part of the FAGOR district group, was one of the first of the larger firms to encounter recessionary difficulties. They experienced problems in the mid to late 1970's. By 1980, as Copreci was starting to recover, many others had to look for creative ways to weather the recession. Ulgor the largest and oldest of the firms went through a leadership change and reorganization in 1983 after two years of serious losses when the Spanish government intervened.

The leadership of the Fagor (Ularco) group recognized that a cooperative ownership structure was not enough to make workers happy and committed to their workplace. Much of the production in the cooperatives was characterized by Tayloresque approaches to production. Whyte and Whyte ((1988:114) documented the reorganization of work that occurred in the cooperatives in the 1970's. In the FAGOR group, they consulted with the Tavistock Institute in London and studied the workplace democracy movement in Scandinavia. Senior staff, Jesus Catania, manager of Copreci and Jose Luis Olasolo, personnel director of FAGOR (ULARCO), made a visit to Scandinavia. They met with Einar Thorsrud who subsequently visited Mondragon and advised them on the use of autonomous work groups and sociotechnical design.

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<sup>3</sup> A second degree cooperative has two classes of members: institutional members from the affiliated cooperatives in the Mondragon group and also worker members. Both classes of members share representation on the board of directors for the cooperative.

Sociotechnical design looks at the social and technical systems of an organization from a systems perspective and its interdependencies. At the primary level, work is redesigned to optimize the variety of tasks and the length of the work cycle; some autonomy is introduced for setting standards, and level of care, skill, knowledge or effort. Autonomous work groups create an interlocking where interdependence is called for either for technical or psychological reasons, such as stress; or individual jobs do not make a perceivable contribution to the utility of the end product (Trist, 1981: 30-31). The primary level is where the intervention begins but it must include a whole organization change that is adaptive and “able to cope with new levels of interdependence, complexity and uncertainty”. (Trist 1981: 40) This intervention requires that information for problem solving be accessible by workers as well as management. It presumes a participant style for management. One would think this would be an ideal intervention model for the Mondragon cooperatives

Copreci instituted the first management reorganization from a function base (where all similar machines or processes are clustered together) to a product base (where the production or assembly of similar products is located in the same section and under the same supervisor). This intervention began in 1972 and continued with an extension to new sections in 1984. The initial intervention became inactive as the recession deepened and management was preoccupied with management of the crisis. The areas where interventions had been implemented remained intact.

The personnel department of Fagor (ULARCO) in a 1987 report observed that the intervention involved nearly all of Copreci’s product lines. The intervention according to Whyte and Whyte (1988:118) had the following positive effects on the quality of work and technical efficiencies:

1. Workers could more readily visualize their contribution to the total product.
2. The above served to improve relations between production and assembly workers.
3. As workers and managers increasingly concentrated on the total product, it was possible to respond with greater flexibility to customers; needs and thus to improve the planning process.
4. The inventory of work in progress was strengthened, which facilitated the introduction of automated processes involving entire work sections.
5. The research and development process was strengthened, which facilitated the introduction of automated processes involving entire work sections.

In addition to this intervention at Copreci, changes were implemented at other Fagor (Ularco) firms. According to Whyte and Whyte (1988:119), there were 83 work groups created involving 632 members between 1973 and 1983.

At Ederlan, a foundry of cast iron and aluminum, there was a failed attempt at an intervention in the grinding department. Fagor Electronica, a producer of semi-conductors and electronic controls, began

an intervention in 1974. The intervention began with a survey of workers, which identified a need for creating smaller work groups. “With this change, work groups assumed responsibility for rotating tasks, organizing their own work, making quality inspections, and requisitioning materials and tools as needed.” (Whyte and Whyte 1988:120)

Changes were begun at Ulgor in 1975 and at Arrasate in 1976. At Ulgor, the intervention focused first on the later stages of assembly. The first changes were mostly job enlargement and job rotation interventions. These changes were too insignificant and not enduring. Arrasate, a producer of machine tools, in contrast, committed to a large scale intervention in the assembly department. Problems arose due to the convergence of two interventions, one process and the other technical at the same time.

Major problems ensued in integrating the technology-driven change in the organization of production with the human organizational changes planned and guided by people in personnel. For some months, the worker participation plan was stalled while management moved machines about and carried out the work necessary to provide adequate space and facilities for the product-based organization.

Due to the recession of the early 1980’s, management was not able to revive the participation program.

The largest intervention occurred in Fagor Industrial, a manufacturer of commercial kitchen equipment. Fagor Industrial committed to a quality circle program. The Lenniz plant in the town of Vergara was the first opportunity in the Mondragon cooperatives to integrate the design of work with the design of a new factory. This involved strategic planning which began to be adopted by managers in the Mondragon cooperatives in 1972 (Thomas and Logan 1992: 37).

The plant structure contrasted sharply with the traditional assembly line found in other Fagor group plants. Whyte and Whyte described the plant as they observed it in 1983:

There were no assembly lines. At the beginning of the assembly process, workers set the frames of the dishwashers on stands, which they attached to a cable under the floor of the factory. The cable moved at a uniform speed from one workstation to the next, but the pace of work at each station was determined by the work group. Operators worked in groups of six to ten. When the cable brought the frame to their station, members of the group uncoupled it and moved it manually to their adjoining work area. They then allocated and rotated the tasks as they themselves decided. Each group was responsible for the quality of its work, so the tasks included testing and registering the group’s judgment that the quality was satisfactory. When the work was completed, members of the group attached the stand and frame to the cable, which propelled it to the next workstation.

Vergara was not a financial success but its financial problems were due to the timing of its development during a recession. The Whyte’s surveys and my own interviews with the plant manager indicated a high level of support for the plant by those working there.

Management techniques were seriously challenged by the recession of the 1980’s. Management efforts were focused on expansion of the cooperative groups; contracts of solidarity between firms and

recycling of redundant workers between firms. Despite the economic challenges, the Group continued to add new cooperatives, new jobs and increased sales. From 1963 to 1977, wages increased an average rate of 15.49% compared to an annual cost of living increase of 9.56% (MCC 1996:44). Bradley and Gelb (1987: 83) found output only grew an average of 1.6% per year between 1975 and 1983.

Globalization had begun even then but Mondragon's cooperative enterprises were more concerned with European integration than global integration. The cooperatives were able to take advantage of still protected markets of the Franco period. Only with the end of the Franco period, did the cooperatives have to seriously consider European employment and safety standards, and the end of protective tariffs. The recession pointed out areas of weakness in the firms. Quality was recognized as a concern. At the end of this period, exports accounted for 20 percent of total output in 1980. This was an increase of 10% in just 4 years. Management would have to make significant changes in the next phase to overcome the vulnerabilities identified during the recession.

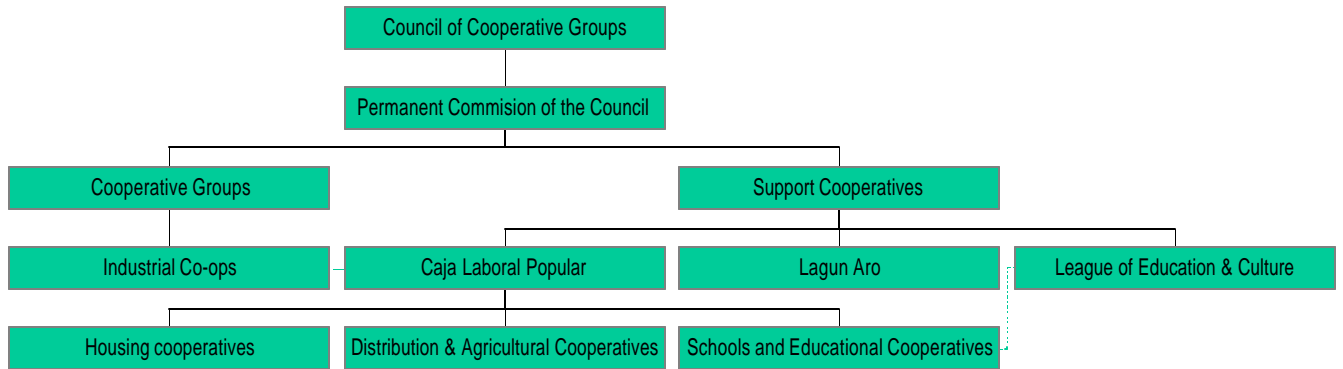
Management expertise at this time was still largely the equivalent of an associate or bachelor's degree. Outside consultants and inservice training attempted to fill in the gaps. The CLP's entrepreneurial division provided their technical expertise where needed in the firms.

#### **Phase 4: The Recession Years and Reorganization 1980 - 1990**

This phase was an extremely difficult period for the cooperatives since the design of the system and of the individual cooperatives was until this time able to benefit from a period of economic prosperity to succeed. The Mondragon cooperatives continued to grow and to add jobs and increased exports. Still, a number of managers were struggling with the problems of developing new markets in a period of slower growth. They were also concerned with how the anticipated entrance of Spain into the European Economic Community and the internationalization of the economy would affect them. Some co-ops, such as Danobat, had already established themselves in the European market and anticipated few problems. Those firms that relied heavily on the domestic market were the most vulnerable.

In 1982, the cooperative group could be best described as a heterogeneous collection of co-ops that affiliated with a cooperative bank, the Caja Laboral Popular (CLP), which served all their major financial needs for long term and short term capital. The system also provided technical assistance for the development of new co-ops and ongoing assistance to co-ops when needed through a Permanent Commission of the Cooperative Congress, a representative governing body of all the associated cooperatives. The first congress was held in 1987. Within this system, each cooperative continued to function as it saw fit in its business and they remained autonomous legal entities (table 4). The decision was made to shift the CLP out of its central role in the group.

**Table 4. STRUCTURE OF THE MONDRAGON GROUP: 1983 – 1990**



The development of the new district and sectoral cooperative groups proved to be a slow process during this phase (Table 5. The Cooperative Groups). Yet it was considered essential for the cooperatives to withstand the recession and to enhance their opportunities for future growth. The strategy in this period was to promote the development of the cooperative groups while limiting the size of the individual cooperatives. As new products were developed in the larger firms, they would then spin off those products with their staff into new independent firms.

The workplace redesign efforts were largely tabled, as people became preoccupied with the bottom line. Given the recession, managers were unable to assess the value of their work redesign efforts, which had been implemented in the late 1970's. Inter-cooperative relations focused on speeding up the formation of the cooperative groups and implementing a cooperation accord, which included a job freeze and the recycling of excess workers into cooperatives with job openings.

The fostering of inter-group solidarity was not readily accepted by all of the co-ops. Resistance to the formation of new cooperatives often derived from concern that the largest cooperative

**Table 5. The Cooperative Groups in 1980.**

GROUP & YEAR BEGUN &	SECTOR/ LOCATION	AFFILIATED COOPERATIVES
FAGOR (1965)	Valle de Leniz	Arrasate, Copreci, Ederlan Fagor Industrial, Ulgor, Fagor Electronica
GOILAN (1978)	Goiherri	Ampo, Altur, Ederfil, Eredu, Irizar, Kendu, Copreci-Ordizia
LEARKO (1978)	Lea-Artibai	Cikautxo, Herriola, Kide Eika, Arrasate-Markina, Lealde
HALTZARI (1978)	Furniture	Coinma, Citamare, Dormicoop
HURBILKOR (1978)	Sakana	Gaiko, Sakana
ORBIDE (1978)	San Sebastian/Donostia aldea & Bidasoa	Biurrarena, Ekain, Guria, Gaztelu, Orona, Scoiner, Vicon
INDARKO (1980)	Mungia aldea & Busturi-aldea	Alkargo, Maier, Uraldi, Munko
DEBAKO (1980)	Machine Tool	Danobat, Goiti, Izarraitz, Lealde, Txurtzil, Ona-Pres, Soraluze,
NERBION (1980)	Greater Bilbao	Citamare, Elkar, Ona- Pres, Matrici
SUR DE NAVARRA (1980)	Merindades de Estella, Olite, & Tudela	Embega, Ian, Zertan
URKIDE (1980)	Urola-Kosta	Danona, Gurola, Obrera, Egurko, Zubiola
URCOA (1981)	Vitoria	Urssa,
EREIN (1981)	Agriculture	Lana, Miba, Barrenetxe, Ian

Source: Caja Laboral Popular, “Grupos Comarcales y Convenios Sectoriales” October, 1980, p. 4.

would dominate the association. Since URKIDE and URCOA groups both had as their general manager the former general manager of the largest cooperative in their group, the concern may not have been unfounded. Another reason why groups were not readily organized was due to financial problems. Neighboring cooperatives were often reluctant to share risks with firms that had a weak economic performance.

The first efforts to develop groups by sector resulted in only two successful sectoral groups during this phase of organizational development: DEBAKO, in the machine-tool sector and EREIN, in agriculture. Attempts to develop a group of furniture co-ops were unsuccessful. It was not till the reorganization as MCC in 1991 that sectoral groups successfully were launched.

As of 1990, there were fifteen cooperative groups that were to some extent functioning on a geographic or district basis. This consolidation along largely geographic lines changed abruptly in 1991, as will be discussed in an analysis of the changes in phase four.

There were other ways that the cooperatives collaborated during this period. Since not all co-ops were members of district groups, the CLP maintained in the Managerial Division departments of Exportation, Marketing, Personnel, Administrative Finance, Legal Services, Production, Product Development, and Intervention and Promotion. These departments would assist cooperatives where their district cooperative group lacked the resources to meet their needs. When groups could not locate a qualified manager to take over a firm, the director of the group or a member of the CLP's entrepreneurial division's staff might serve as an interim director. Shortages of qualified managers were a concern during this period.

Probably the single most important area of cooperation amongst the cooperatives during this recessionary period was in the recycling of workers. Cooperatives did not have the same ability to manipulate their labor costs, as did conventional firms. In non-cooperative firms, management determined how many workers it would hire at the going rate based on their expected sales for that year. During recessionary times, many workers are laid off since the expected output will be low. The Mondragon firms were fortunate that their size allowed them a way to address the fluctuations of the market not only at the level of the individual firm but also at the level of the cooperative group and the system.

At a systemic level, the cooperatives addressed the problems of the changing market. During the recession, the cooperatives employed a variety of strategies to address the problems of surplus labor. In some cooperatives they employed a job freeze. In the Fagor group, there was an effort to shift office workers into blue-collar work (Directizacion de Mano de Obra Indirecta). A number of firms shifted

workers from their cooperatives to others under the terms of the Inter-cooperative Unemployment Agreement (Convenio Intercooperativo Sobre el Desempleo). A final strategy was the adoption of flexible calendars. Each cooperative could hire up to ten percent of their workforce from other cooperatives and from outside the cooperatives. This was increased from five percent in the mid-seventies. In this way, the cooperatives were able to maintain their commitment to full employment. This system is still utilized where appropriate within the MCC.

The system of shifting workers to other cooperatives was not free of problems but insured employment and eased the drain on the resources of firms in financial trouble. There were 1,180 workers (approximately six percent of the work force) moved to other cooperatives during the period, July 1980 - February 1981.<sup>4</sup> Approximately four hundred workers were employed in other cooperatives between May 1981 and May 1982.<sup>5</sup>

This process of transferring workers was an important innovation for insuring the stability of the firms in a recessionary period. The accounts of the system of transferring workers suggests that there were problems due to the unwillingness of the majority of workers to volunteer for even short transfers. A "white paper" written by workers in Arrasate, one of the FAGOR cooperatives in 1982 provided a perspective on why some workers were critical of this system. Along with the system of job valorization and pay scales, workers viewed the transfer system as another means of social control of workers. They argued that this institutionalized a "system of fear." Management "can determine who works a lot or not, based on whether one talks or not, if one is sympathetic to management or not."<sup>6</sup> Their distrust stemmed in part from the fact that white-collar workers had not been transferred elsewhere. The burden of the cutbacks was born disproportionately by blue-collar workers. Still the system of recycling workers became an established part of the Mondragon Cooperative Corporation.

The final aspect of the superstructure of the cooperatives that changed during this period was the central role of the CLP. During the recession, there was a decline in the rate of growth in earnings in many cooperatives. Many cooperatives attempted to increase their capital reserves through requiring new member contributions to capital. Labor costs were reduced 3.6 percent (against total sales) in the period 1978 - 1981. Bradley and Gelb in an unpublished article, "'Mixed Economy' versus 'Cooperative Adjustment,'" found that in Fagor (Ularco), workers experienced an eleven percent pay

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<sup>4</sup>Ana Gutierrez-Johnson, "Industrial Democracy in Action," (Ph.D. dissertation, Cornell University, 1982), p. 237.

<sup>5</sup>David Gardner, "Cooperative Experiment a Success," Financial Times (June 10, 1982), p.III.

<sup>6</sup>"White Paper" from workers in a FAGOR cooperative, n.d.



cut in 1980. Two months wages were capitalized. “In 1981, 1982, and 1983 respectively, the group paid only 90.8, 93.0 and 93.5 percent of CLP scales.” Their findings support the view that pay scales in the cooperatives had fallen sharply compared to outside the cooperatives. This in turn made more capital available to the bank to help those firms that were in trouble. The need to increase the self-financing of the cooperatives was due to the institution of new policies in the CLP in 1981. One of the policies stated that the CLP would not assume a risk greater than a set percentage of the firm’s assets (generally one hundred percent). This resulted in a critical situation in about twenty percent of the cooperatives. Bradley and Gelb described the closings of that period.

At the same time as five cooperatives have been closed or are closing, five new ones are being launched despite the generally difficult circumstances of the Spanish economy . . . the closing cooperatives represent cases in which the CLP’s share of assets has risen to over 60 percent and there is no hope of resuscitation through an austerity/capital restructuring program. Nine cooperatives, mostly small, are now undergoing such programs and in total 26 cooperatives are experiencing intervention in their management by the CLP.” Where a cooperative closes, workers lose their financial investment but are given preference in hiring where temporary or permanent jobs are available. They are considered “insiders” and receive unemployment compensation from Lagun-Aro (pp. 29-30).

This change was considered necessary to reduce the level of financial risk assumed by the Bank (Aquinano, 1982). A bank staff member provided an explanation for the changes. We had been giving credit and it wasn’t returned. Another credit would be given to repay the first one and so on. Last year for the first time, an independent auditor came and said, “You are counting these as good loans when they aren’t. Because you will never collect the 200, 500 or 700 million that you have given to this firm. Therefore you cannot call this one of your active ones when it doesn’t exist. This firm has lost it.” Therefore, of the two billion of credits that we have given, seven hundred million is bad debt because A.A. (the auditor) says so and refuses to sign it . . .(A CLP staff member, 1982). Despite the unpopularity of these measures in some quarters, the cooperatives succeeded in maintaining full employment and a modest rate of growth. The fact that the cooperatives did this elicits admiration from even the most critical of its members.

The CLP had played very important development and financing roles but experienced serious conflicts of interest in doing so. The Spanish government intervened and required the CLP to step down from its central role in the group. There had been an increasing distrust of the bank by people in the co-ops as it attempted to juggle its dual roles. There was a perception that when staff in the Entrepreneurial division worked with a cooperative to prepare its application for a loan, it made it difficult for the loan officers to reject an application. The Managerial Division was also spun off from the CLP as of 1990 as a separate support cooperative called Lan Kide Suztaketa (L.K.S.).

Management was focused on the bottom line during this period. The efforts at sociotechnical design were sidetracked as managers focused on weathering the recession. In 1982, indepth interviews were conducted with 50 managers. When asked about their use of strategic planning, their responses described a top down approach to strategic planning which saw it as a tool of business planning. Their descriptions did not reflect an approach that would include all stakeholders in the planning.

At the end of this period, the Group had combined assets of Ptas. 660,000 million. The workforce exceeded 18,000. Spain was now a member of the European community. The need to adapt to the increasing demands of the globalization of the economy was presenting new challenges to the cooperatives. The cooperatives recognized in the demands of global markets that small cooperatives could not compete. The strategies of the 1980's were not viable in this new market environment. The combination of the pressures for change in the bank and in how the cooperatives competed in the global market demanded a new structure for the Mondragon cooperatives.

Management required more professional skills. According to a CLP (1988) study of managers, there were 619 managers in the cooperative group in 1988. There was one manager for each 35 persons in the group. The tenure of managers in their positions was five years on average. Forty-eight percent of the managers were hired from outside of the cooperatives. Increasingly the Mondragon group looked to itself to provide training. Otalora, a cooperative and business training center was created during this phase. Additional training was developed at the level of the cooperative groups.

### **Phase 5: The Internationalization of the Mondragon Cooperative Corporation 1990-present**

This final phase has been characterized by a major restructuring of the cooperatives into a uniform corporate identity, the Mondragon Cooperative Corporation (MCC). Development of new cooperatives through spin-offs from other cooperatives ended. Startups were deemed too costly. Profits were needed for overseas investments and joint ventures to insure the strength and continued profitability of existing businesses. The cooperative groups were reconfigured on sectoral lines and assumed many of the functions once held by the geographic groups. The reorganization was implemented in 1991. The reorganization gives the Mondragon cooperatives much more visibility in European and global markets. The reorganization streamlined managerial ability to move strategically on new investments. The MCC structure also gives the cooperatives a greater ability to take advantage of market opportunities while minimizing competitive threats and to streamline and eliminate some of the levels of decision making that have encumbered the ability of the group to compete in its changing market environment. The leadership of the cooperatives could not fully exploit the synergistic potential of the cooperatives with the existing federated structure. The reorganization has enabled them to lead the group as an aggressive and able competitor.

The new structure included three groups, Finance, Industrial and Distribution with divisions in the Industrial and Distribution groups. In the Industrial Group there are the following divisions: Automotive, Components, Construction, Industrial Equipment, Household Goods, Engineering and Capital Goods and Machine tools. In the Distribution Group, there are Agricultural, Food Production and Distribution firms. Outside of these three groups, there are also Research, Training and Education Centers and Support Bodies. In the process of restructuring, some cooperatives were merged with others in the same sector. A few cooperatives chose to stay out of the MCC. The Ulma (Oñate) Group of cooperatives initially did not wish to lose their geographic group and the solidarity derived from their physical propinquity. They elected to remain separate from the MCC, until recently, while retaining ties to the CLP. Kendu, a manufacturer of shank milling cutters, saw no benefit to a greater MCC corporate identity and left the group.

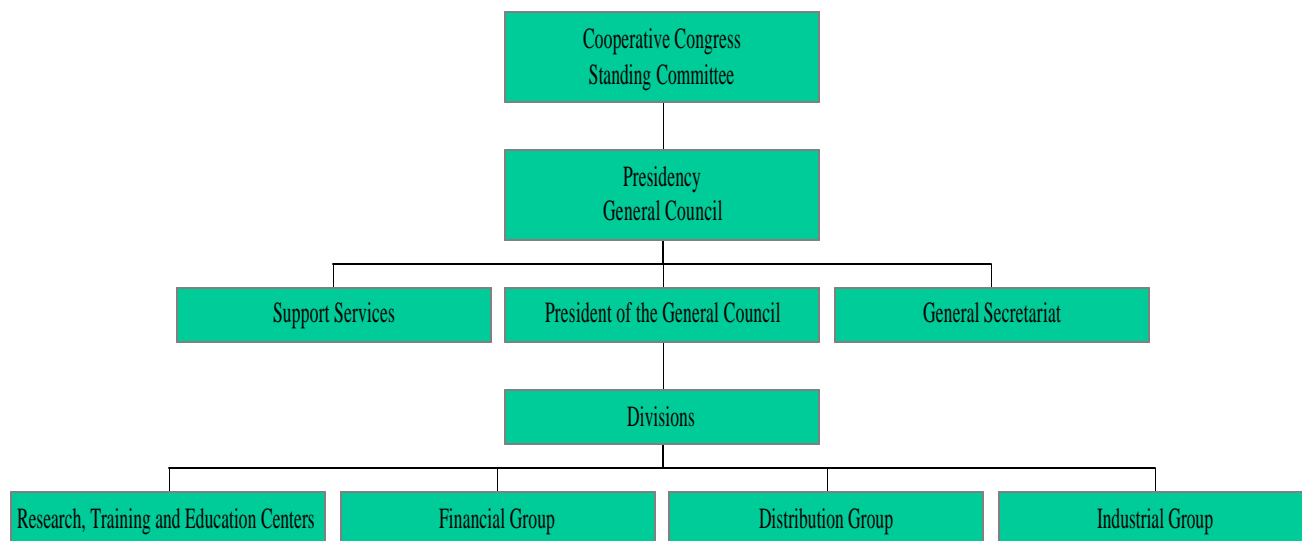
The division structure has several advantages. It provides the cooperatives with a unified trademark. The strategic alliance strengthens their competitive capacity and more effectively captures and deploys human, technical and other relevant resources. Each cooperative within a division remains self-sufficient and retains its own administration, human resources, purchasing and in some cases inventories and technologies. The determination of which level this commercial activity occurs at depends on the criteria of the center of greatest benefit. Along with the reorganization of the worker cooperatives and their cooperative groups, the support organizations were also reorganized. Support services previously provided by the bank were hived off into the Mondragon Cooperative Corporation or other cooperatives or support bodies such as LKS, an engineering and consulting group and MCC Servicios which serves as the corporate headquarters of the MCC.

In 1990, Jesus Herrasti, then president of the FAGOR General Council saw the cooperatives striving to reach a balance between management and people, especially when it involves large, strategic decisions. "We are at a critical point facing Europe and with the retirement of the "pioneers" (founders of the cooperatives)." In the 1970's, the trend was to decentralize which meant that in the FAGOR group, five co-ops became thirteen co-ops. But according to Herrasti, "Decentralization coincided with a critical economic crisis. If it had been otherwise, we might not have gone in the current direction." He saw the shift from district groups to sectoral groups as essential for the cooperatives. "In the new groups, it will be the product that joins us instead of the social relations."<sup>7</sup>

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<sup>7</sup>Jesus Herrasti "Seminario de Participacion en las Cooperativas de Mondragon." Mondragon, Spain. July 16 and 17, 1990.

Table 5. Structure of the Mondragon Cooperative Corporation, 1991



The manager of one of the FAGOR cooperatives described the drive to consolidate the group as “a predictable developmental stage in a mature organization . . .” The cooperatives are facing a lack of will to commit the time and energy to effectively work as co-ops. Participation takes time and the younger generation would prefer to spend theirs elsewhere. There is more individualism and less interest in working together and people want more money as well. To be a cooperative does not mean anything to people now . . . They say we have to consolidate our image to be bigger and to compete. I am not sure how big one needs to be to compete.<sup>8</sup>

Jesus Larrañaga, the former manager of Ulgor, the first worker cooperative and one of its founders described the challenge of expansion in 1990, in terms of the Mondragon Cooperative Corporation as a cooperative body with capitalist arms. “Our problem could come if the arms are bigger than the body . . . Some people study human behavior. We practice it. We have to create a culture with those values of democracy and cooperation.”<sup>9</sup>

<sup>8</sup>Interview with the manager of a medium sized firm in the FAGOR group, July 12, 1990.

<sup>9</sup>Jesus Larrañaga addressing "Seminario de Participacion en las Cooperativas de Mondragon." Mondragon, Spain. July 17, 1990

The cooperatives have demonstrated a high degree of fluidity and openness to change over the years. Thus one is inclined to view these changes as perhaps just another phase in their evolution. The restructuring has certainly shifted strategic decision-making away from the rank and file workers. Less clear is whether in time this will result in a less transparent system of management.

Most characteristic of this phase in the evolution of the Mondragon cooperatives has been MCC's integration into the global economy. The Mondragon Cooperative Corporation has acquired non-cooperative firms, invested in joint ventures and has some wholly owned overseas subsidiaries (table 6).

In the overseas operations, local managers and workers are hired. During this period, overseas operations were developed or expanded in China, Thailand, India, Argentina, Brazil, Holland, Morocco, Eastern Europe and Mexico. These investments are intended to insure continued growth in the profitability of the MCC firms and to open access to new markets for the MCC .

In 1988, the European Foundation for Quality Management (EFQM) was established. Fourteen organizations and firms to foster new standards of excellence in European firms formed EFQM. European economic integration required the MCC to actively look at the quality of its products. The EFQM model was adopted in the MCC. It is an intervention that has nine criteria. They are: orientation to the client; leadership, process management, learning for continual innovation, development and involvement of personnel, teamwork, development of alliances.

Maier, a plastic's firm was the first to implement total quality management. In *Hobekuntza* (1995), Alfonso Vazquez described the experience of Maier in the development of this intervention. In their 1992 strategic plan, they identified the need for a change. Vazquez described the problem at Maier. It had too many "different perceptions, different sensibilities, and different conceptions of Maier, its businesses, its function and its future"(1995:32). Communication problems were affecting their business performance. The intervention involved a series of meetings of the manager, human resource staff, and those responsible for quality and engineering. They worked to develop ideas for a new system based on total quality management. According to the director of human resources, this has required work redesign that incorporates greater shop floor participation and teamwork in "minifactories". "In the management of Maier, management announces its objectives. Then each person or each group, each minifactory sets its objectives, which then contribute, to how we will attain the general objectives set by management."<sup>10</sup>

The MCC has committed to the development of total quality management in all the cooperatives. Internal consultants on the staff of MCC Servicios began working with the rest of the affiliated firms to adopt total quality management in 1996. . While external pressures drove the intervention: internationalization and EFQM's emphasis on quality, the intervention is seen as a way to integrate the

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<sup>10</sup> Interview with director of human resources, February 27, 1998

cooperative reality with the management of the MCC firms. It is a management model that complements the cooperative form.

? **Table 6: MCC Joint Ventures & Subsidiaries 1998**

### **Automotive**

*Luzuriaga Usurbil, Gipuzkoa*

*Luzuriaga Tafalla, Navarra*

*Maier-MGI Coutier, Navarra (Maier has a 51% holding)*

*FPK, Bizkaia (50% holding)*

*Ferroplast, Vigo (Maier has a 51% holding)*

*Automodulos, (MCC has a 40% holding -- 45% is MCC Inversiones, 25% Ederlan, 15%; Batz, 15%)*

### **Components**

*Fagor, Thailand (100% holding)*

*Copreci has the following holdings:*

*Switch Controls, Holland (100% holding)*

*Copreci de Mexico, S.A. (51% holding)*

*Technical Components & Equipment*

*Irizar - Maghreb, Morocco*

*Tianjin Irizar Coach, China (Irizar has 36% holding)*

*Machine Tools (Forming)*

*P. I. Proin, S.A., San Sebastian (100% holding by Fagor Arrasate)*

*CIMA, France (Fagor Sistemas has an 82% holding)*

*Industrial Joint Ventures & Subsidiaries - 4*

*Engineering & Capital Goods: Engineering & Consultancy Subdivision*

*Enyca, Cantabria (Subgroup and MCC have 66.66% holding)*

*ISEI, S.A., Gipuzkoa (81.2% subgroup holding)*

*SEI, Fagor, France (66.66% subgroup holding)*

*Domestic Appliances*

*Extra Electro menager, Morocco (Fagor Electrodomesticos has 100% holding)*

*McLean S.A., Argentina (Fagor Electrodomesticos has 70% holding)*

*Vaillant, New German joint venture in Vergara to produce heaters with Fagor Electrodomesticos*

### **Distribution & Financial Group**

#### **Financial**

- *Seguros Lagun Aro (89.5% holding)*
- *Lagun Aro Vida (80% holding)*
- 

#### **Distribution**

*Erosmer (62.66% holding by Eroski)*

*Eroski has also partnered with 2 groups of supermarket firms, SIP and Unida.*

In training materials for presenting process management to MCC managers, the intervention is described as follows:

In recent years, an evolution of management models is happening from the division of labor (Taylorism) in search of the integration of people in taking decisions and participation. The real tendencies in the forms of management have looked to greater integration of people in the firm, progressively reassessing cooperation and overcoming labor/management conflict. Many Western firms have successfully made this adaptation to the new culture. They have become much more competitive. (MCC March, 1997: 3)

This intervention is seen as allowing the cooperatives to take cooperation to its fullest potential. At the same time, it has enabled the firms to achieve new levels of quality in their products. A chart produced by the MCC on its model of corporate management, summarizes the change. Previously the model was a traditional Taylorist focus. This was characterized by a focus on production of goods; department objectives; the participation of a few; individual work; emphasis on the physical facilities; intermediate quality investments; purchasing and sales; and confrontation and negotiations. In contrast, total quality management emphasizes: client satisfaction; strategic planning; everyone participates; teamwork; emphasis on people; continuous improvement, integration and cooperation.(MCC March 1997.) As a management system, it is a model that complements the cooperative mission and values.

Another factor in the evolution of the MCC management systems has been the change in the characteristics of the workforce in this period. As assembly work was replaced by automation, the MCC has moved away from its role as the employer of the traditional blue collar workers. Today, new hires are typically college educated and must speak English, Basque and Spanish. Growth in knowledge based businesses reflects this trend. Significant investments have been made in the development of Mondragon University and other training centers. Where the Union Cerrajera once stood, there is now Saiolan, a business incubator center that began in 1992. As of 1998, it had incubated 36 businesses.

### **Challenges to Mondragon's Management**

Growth will continue to challenge Mondragon on conventional management terms as well as its ability to adhere to its cooperative mission. Total quality management with its focus on core values, strategic planning and integration of participatory processes, should strengthen and reinforce the cooperative model. This was reportedly the case in Maier, the firm where it was first implemented. (Interview, February 1998). More indepth research on the implementation of total quality management is needed to ascertain whether it is in fact able to reinforce the cooperative mission.

The cooperative business model has encountered numerous challenges to its core values with the globalization of markets. Mondragon has opted to internationalize in order to remain competitive in its markets both locally and internationally. In order to remain competitive in its business sectors, Mondragon can no longer base its success on a commitment to local businesses based on the original core values of Christian Humanism and preservation of Basque language and culture. Instead it must

compete with multinational firms such as Walmart, Siemens, and General Electric, both on its own turf and abroad. These challenges will test the MCC and its leaders ability to sustain the commitment to cooperative ownership, the Basque local economy and to meaningful participation for its cooperative members.

Mondragon's firms have successfully made the transition from firms in a highly protected economy. They have developed a system that still retains a commitment to cooperative ownership and its Basque identity. How well they preserve those commitments in the next generation will depend on the new generation of managers who are emerging to replace those who grew the group from its infancy. Current leaders are proud of their achievements. They are proud of their status as leaders in the development of cooperatives. They are committed to industrial democracy and participation and the foundation of their success rooted in social entrepreneurship. MCC has made appropriate interventions to insure that they continue to remain competitive on the quality of their products. Their continued success as cooperatives will depend on the ability of the next generation of leaders to avoid drift in the mission.

In interviews in 1998, Mondragon's leaders continued to articulate a commitment to preserving jobs locally. Through technological innovations and acquisitions of businesses with a potential to relocate them in the Basque region, they hope to retain a focus on sustainable local job creation. Certain sectors such as the automobile industry will require that they develop plants outside of their region. These requirements of the automotive industry are outside of their control. While it might be argued that they should move their investments to more compatible industries, one could argue that this is in fact happening with the large investments in knowledge based businesses in the past ten years. Whether they can grow and retain their cooperative ownership structure while investing in a wide range of joint ventures remains to be seen.

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