The Mondragon Cooperative Experience:
NOTES ON HISTORY, SCOPE AND STRUCTURE

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Fred Freundlich
Email: ffreundlich@mondragon.edu
Lanki – Institute of Cooperative Studies
Faculty of Humanities & Education
Mondragon University
20540 Eskoriatza, Spain.

This special issue of the *International Journal of Technology Management and Sustainable Development* is devoted to an unusual, and unusually successful, business phenomenon: the Mondragon group of cooperative enterprises. Its history and organizational structure, as well as other aspects of its current strategy and practice, have important implications for the central themes of the *Journal* – technology management and sustainable development. This is perhaps especially true in an era of global economic crisis, when the basic structures of the economic order are being called into question, and many people are actively searching for more transparent, more equitable and more environmentally safe – in short, more *sustainable* – alternatives. We are grateful to the Editorial Board of the Journal for giving the authors and its readers the opportunity to reflect on various aspects of the Mondragon experience in this space.

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Mondragon represents a strikingly different and successful approach to our most basic economic institution, the business enterprise. The essence of this approach is expressed in its

unusual ownership structure. Mondragon firms are *worker cooperative* enterprises; that is, they are jointly owned by the people who work in them.

Headquartered in the Basque Country of northern Spain, Mondragon is often considered the most successful example of cooperative, or worker-owned, enterprise in the world (ICA & Euricse, 2018; Garcia, 1970, Mathews, 1999; Mondragon, 2018; Whyte & Whyte, 1991). What started over 60 years ago with a handful of workers making simple paraffin cookers and heaters, in 2018 consisted of nearly 82,000 people in an integrated network of some 268 cooperatively-owned businesses, subsidiaries, and affiliated organizations, with total sales of €12.2 billion (Mondragon, 2018). Globally as well as locally, these cooperative companies compete successfully with their conventionally-owned counterparts in a variety of advanced manufacturing sectors, banking, food and consumer goods retailing, as well as in engineering and business consulting, and other services.

1.1 Origins of the Mondragon Group:

The first firm in what was to become the Mondragon complex of cooperative companies was established in 1956 with about 25 workers, in the town of Mondragon in the Basque province of Gipuzkoa. The founding leaders were five young men, inspired and guided by a local priest, Fr. José María Arizmendiarrieta. Most analysts of the Mondragon experience believe Arizmendiarrieta's activity in Mondragon and his influence on the founders were crucially important to the cooperative network's founding and development (e.g. Azurmendi, 1984; Cheney, 1999; Larrañaga, 1998; Mathews, 1999; Molina, 2005; Ormaetxea, 1997; Whyte & Whyte, 1991). Arizmendiarrieta was an unusual man, at once a Catholic and social science intellectual visionary, and a detail-oriented, goal-driven pragmatist. He had read widely in social

science and political philosophy, including European Labour thinkers, and was a forceful proponent of Catholic Social Doctrine. This Doctrine is generally critical of conventional capitalist economics and business practice, calling for greater equality, cooperation, and protection of human dignity in the structure and operation of enterprise. Sent to the town of Mondragon in 1941 as a parish priest, amidst the poverty and repression of the Franco dictatorship in the immediate post-Civil War era, Arizmendiarrieta saw education as one of his most fundamental tasks. He started a tiny vocational-technical school in 1943, which grew gradually but steadily into a sizeable educational undertaking. He developed all manner of other educational initiatives, formal and informal, for children and adults, on a wide variety of topics; technical, religious, cultural, and recreational. He also engaged in what can best be described as community organizing, rallying and coordinating local residents of all ages and, through informal participatory methods, spurring them to undertake community-building tasks of all kinds. A core group of people, mostly youth, became followers, even disciples, of Arizmendiarrieta. They got involved in many of his educational activities and, to a greater or lesser degree, became imbued with his religious and philosophical point of view.

As the years passed, Fr. Arizmendiarrieta became increasingly interested in moving Catholic Social Doctrine and his own brand of “personalist-humanitarian” philosophy into the economic sphere, and particularly into the workplace. His goals were both ethical-religious as well as concrete and pragmatic. He hoped to promote both individuals’ moral character as well as broader social justice through the creation of a new kind of enterprise, one that encouraged hard work, cooperation, shared rewards, and individual responsibility. At the same time, he sought to generate employment and wealth in a region that had been impoverished by war, dictatorship and neglect. After consulting with legal experts, he eventually decided that the

"cooperative corporation" or "cooperative society" provided the best legal structure for pursuing his goals.

What provoked this search for a particular legal form was the experience of several of the young men who had been among his closest followers in the early 1950s. They had graduated from the vocational school he had established (had also earned distance-learning engineering degrees) and had found work in the Unión Cerrajera, a large company that had dominated the economy in greater Mondragon for over a generation. After seeking, with Arizmendiarrieta, to introduce reforms in the company and failing, they decided, with his encouragement, to form their own business, and in 1955-56, they founded "ULGOR", the first enterprise of what was to become the Mondragon group. They now needed a legal structure that would reflect their goals and commitments and, soon after its founding, they decided to re-organize ULGOR as a cooperative society, based on Arizmendiarrieta's legal research and consultations.

Other followers of the priest, as well as acquaintances of the founders and others, began to set up new cooperative enterprises in the area, and these soon became loosely affiliated with each other. The Mondragon group then grew steadily. By 1970, there were 8,570 worker-members in 54 cooperative firms. Ten years later the numbers had grown to 18,733 worker-members and 96 cooperatives.[1]

Again, inspired and at times led at first by Arizmendiarrieta, in the late 1950s, the companies also began to jointly establish a number of cooperative institutions that the enterprises would then develop and govern in common to serve their business and social needs. These support institutions, and their evolution into a network with the cooperative companies, constitutes one of the principal institutional innovations of the Mondragon group and has been

[1] See "Caja Laboral: 25 Años", p. 454. Figures do not include 40 cooperative primary/secondary schools or 14 housing cooperatives that the group helped to develop.

vital to its ongoing success. They have come to include what is now a €23 billion cooperative bank, Laboral Kutxa, a €6 billion cooperative social security system (Lagun Aro), 15 research and development organizations, a sizable venture capital fund, a series of educational institutions offering programs ranging from day-care to post-graduate and continuing education and others.

The loose affiliation of firms and support organizations gradually became a formal, integrated network, as mentioned. At first, the companies worked out common policy and governance arrangements through their joint membership[2] in Laboral Kutxa, then called Caja Laboral. As years passed, the potential advantages of joint action for investment, employment planning, social services, exporting and other activities became clearer, and mainly in the 1970s and 1980s, the cooperative firms affiliated with the Caja formed subgroups based on geographic proximity. Then, in the late 1980s, after substantial discussion and debate, the group decided to reorganize itself again, this time with two other features principally in mind: (1) the establishment of central structures for overall governance, strategic coordination and management services (see section 1.2 below); and (2) the creation of subgroups of firms, or divisions, mainly by industrial sector instead of by geography. In 1991, the Mondragon Cooperative Corporation (MCC) was born to put these ideas into practice. Since then, other structural modifications have taken place, and in 2008 the named changed from "MCC" to simply "Mondragon", but the basic organizing principles of group have largely been preserved until today.

[2] The bank and other support institutions are "second-degree" cooperatives, that is, "cooperatives of cooperatives". In this case specifically, slightly less than half the membership consists of bank workers, and slightly more than half consists of the representatives from cooperative firms that joined together to form the bank. Both groups have membership rights and responsibilities, though in the case of the bank, governance favors the cooperative firm members who, aside from over 50% of the General Assembly, control two-thirds of the seats on the banks's Governing Council (Board of Directors).

This flexibility and ingenuity in institutional design have been central to Mondragon's longevity and prosperity, but other factors contributed as well, including: favorable economic conditions and protectionist Spanish trade policy[3]; charismatic, ethically-based leadership willing to make substantial personal sacrifices; engaging, local, democratic institutions; and the unusual kind of community solidarity, pride and cohesiveness that at times develops among groups of people during periods of shared economic hardship and political repression. These factors, and undoubtedly others as well, allowed the cooperative group to flourish in its early years and, by 1960s, the group seemed to arrive at a critical mass of enterprises, products/services and worker-members. The first businesses were successful, and success built on success. The group grew rapidly through 1960s and early 1970s, as mentioned above, and while many of factors that contributed to its initial success, naturally, have changed over time, others have remained more or less in place. Though tensions, even contradictions, and problems of all kinds have existed throughout the Mondragon group's history, and continue to exist today, the network has remained prosperous down to the present. Time will tell if the Mondragon cooperatives are able to maintain both their business success and their commitment to cooperative principles, structures and practices, both in the Basque Country and around the globe.[4]

[3] An accommodating legal stance and related advice on the part of Franco regime officials, Riaza and del Arco, based on a complex set of motives involving shared religious beliefs and a commitment to cooperatives, also seems to have played a key role in legally facilitating the creation of the first cooperatives and the bank, Caja Laboral. Terence Martin, the English-speaking author who has reviewed this period of Mondragon's history most closely in the last 20 years, describes the evidence on this point as "compelling but not conclusive."

[4] One key controversial issue not explored here that, at minimum, deserves mention is the existence of non-member workers in the cooperatives and their subsidiaries. Basque cooperative law stipulates, in rough summary, that no more than 30 per cent of a cooperative's workforce can consist of non-member employees. Mondragon policy limits that portion further. Still, many Mondragon cooperative members and observers alike feel the percentage is high. Equally if not more challenging is the percentage of Mondragon's total workforce consisting of non-member employees who work outside the cooperative legal form entirely in the firms' subsidiaries. Over half of Mondragon's 82,000-person workforce does not currently hold worker-member status. This situation is largely due to the rapid expansion of Mondragon's Retail Area – the Eroski chain of supermarkets and other consumer goods stores in the 2000s – and also to the increasing number of manufacturing operations overseas, now over 140. Eroski began to address the situation several years ago, but was interrupted by the Great Recession. Similarly, one of the most urgent, and most complex, issues facing Mondragon's Industrial Group is how to establish legal, financial and

1.2 Organizational Structure: Individual Cooperative Firms and the Network

In order to introduce the organizational structure of Mondragon and its member companies, we need to answer two related questions: what is a worker cooperative enterprise and what differentiates it from a conventional firm?[5] One way to answer this question in summary fashion would be to consider the roles of two of the basic elements of any enterprise – labor and capital – known in economics as "factors of production". The simple, philosophical essence of the cooperative company is that it *reverses* the conventional relationship between these two. As

Table 1: Status of Labor and Capital
in the Worker Cooperative vs. the Conventional Enterprise*

INSERT TABLE 1 APPROXIMATELY HERE (see p. 17)

shown in Table 1, in the conventionally-owned company, ultimate control, by law, rests with the owners of its capital, in a corporation, its stockholders. Capital is primary; labor is an instrument, an input used to fulfil the goals established by the owners of its capital. In the cooperative company, these roles are reversed. Control, by law, rests with labor, that is, with the organization's worker-members, and capital, by contrast, is considered an instrument. Labor is primary; capital is a tool, an input used to fulfil the goals established by worker-members.

organizational mechanisms that facilitate cooperative or similar kinds of worker-ownership in many different countries where Mondragon co-ops have subsidiaries, each country with its unique legal, business and cultural context, and each subsidiary with its particular legal-financial-organizational circumstances.

[5] These questions, indeed, the idea of ownership and property themselves, have been at the core of debates in philosophy and the social sciences since Antiquity, and particularly since industrialization in the 19th century, though here we will have to limit ourselves to a describing a few key ideas derived from these discussions. For further treatment, see Dahl, 1985; Ellerman, 1984, 1992, 2005, 2016; Landemore & Ferreras, 2016; Macpherson, 1979; Mason, 1982, Mathews, 1999; Pateman, 1995; and Schweickart, 2002).

This role reversal has at least two crucially important implications. First, it means that ultimate control – governance – of the cooperative company is democratic, based on the principle of "one member-one vote." Second, it signifies democratic treatment of financial surplus, or, profits/losses. The profits (or losses) earned by a cooperative are distributed among its workers-members in proportions that they themselves jointly decide; they are not distributed to holders of capital, as in the conventional firm[6]. The critical distinction between cooperative and conventional firms regarding both governance and distribution of surplus, as suggested by the table, lies in the philosophical and legal "source" of rights in the firm (Ellerman, 1984, 1992, 2016). Rights in a worker cooperative firm derive from one's contribution of *labor* to the organization as a member, not from one's contribution of *capital* as an investor[7]. Strictly speaking, rights are personal rights, not ownership rights; thus, a co-op is a "*personal*-ist" organization, not a "*capital*-ist" one.

Mondragon has other important features related to its cooperative structure and many of these are described or implied in its Basic Principles. Discussing each of the ten in depth is beyond the scope of this paper, but, for reference purposes, a list of these principles is presented below.

[6] Post-tax profits are divided among workers, but the Mondragon cooperatives and Basque cooperative law have developed a unique, highly-disciplined system for accomplishing this. Basque law requires that a minimum of 10 per cent of post-tax profits be donated to non-profit organizations, and a minimum of 20 per cent to internal collective reserves for business purposes, leaving a maximum of 70 per cent to be divided among worker-members. Mondragon policy raises the minimum allocated to collective reserves to 45 per cent, which leaves 45 per cent to be distributed among worker-members. A related Mondragon cooperative policy dictates that members can only receive up to 30 per cent of this distribution in cash each year (and, in fact, few Mondragon cooperatives decide to take any of this profit in cash), and that the bulk be deposited in each worker-member's "internal capital account". Worker-members earn interest on the balance in their accounts annually and recover the total when they leave the company or retire. Through these mechanisms, Mondragón cooperatives try to balance the principle of profit distribution among workers with the practical need of companies for ample funds to meet business requirements.

[7] Worker-members of cooperatives do make an initial capital "contribution", and their capital holdings can vary over time for a number of reasons (for example, if new investments are required, if the firm makes a loss, or if it makes a profit and distributes earnings internally to the workers' "internal accounts", and not in cash, as in Mondragon, etc.). Individual workers, as a result, may hold different amounts of capital in the cooperative enterprise in comparison with one another, depending on when they joined the firm and its fate since joining, but they maintain equal basic rights in the company, since rights derive labor not from capital.
from

Table 2: Mondragon's Ten Basic Principles

INSERT TABLE 2 APPROXIMATELY HERE (see p. 17)

The organisational structure of individual Mondragon firms and of the overall network is based on this philosophical foundation. The following figure captures the internal organization of an individual cooperative enterprise belonging to the Mondragon. The network structure in its entirety is pictured subsequently in Figure 2, followed by a description in the text.

FIGURE 1 APPROXIMATELY HERE (see p. 15)

The highest governance authority in a Mondragon cooperative company is the *General Assembly of worker-members*. It meets at least once a year, votes on major issues and elects a *Governing Council* (essentially a board of directors) and the Council *President* based on the principle of one member-one vote. The Governing Council and its President represent the Assembly between its meetings, oversee the execution of Assembly decisions, generally monitor the performance of the company and its senior management, and debate and decide issues of strategic importance.[8] The Council appoints, and may remove, the *Chief Executive Officer (CEO)* and must approve his or her choices for unit directors. The CEO and unit directors,

[8] The issues that the Governing Council may decide on its own, without consulting the General Assembly, are spelled out in Basque cooperative law and in each cooperative's by-laws. If many worker-members disagree with a Governing Council decision, they may call an Extraordinary Assembly and seek to overturn the decision or elect a new Council.

together, form the *Management Council*, which is the body responsible for the day-to-day management of the firm. Worker-members also elect an *Audit Committee* to monitor the firm's finances and other issues, and work-area representatives to a company-wide *Social Council* whose role is to facilitate communication among the worker-members, management and the Governing Council, and generally represent frontline workers' perspective in company decision making.

Mondragon companies are all joined closely together in integrated network. Figure 2, below, displays the network structure of Mondragon as a whole, including governance and management bodies, and other institutions that the individual cooperatives have developed in common.

FIGURE 2 APPROXIMATELY HERE (see p.16)

In summary, Mondragon is comprised of 260 individual, cooperative enterprises, subsidiaries and affiliated organizations, all of which are joined together in several ways under a central, structural umbrella. These member organizations and their affiliates are distributed among four major areas—Financial, Industrial, Retail & Knowledge—and, within the Industrial Group, among several divisions.

Governance of the Mondragon network of organizations, the "Mondragon Corporation" is carried out through two bodies, the *Cooperative Congress* and the *Standing Committee*. The

Congress is composed of 650 representatives elected from each of the member cooperatives[9] and establishes general rules and policy frameworks for Mondragon member firms. The 21-member *Standing Committee* and its *President* (who also presides over Congressional meetings) acts, in many ways, as an internal board of directors for the group. Members of the *Standing Committee* are not elected directly from the Congress, though, but rather from the previously elected Governing Councils of the Areas and Divisions, which, in turn, have been elected by Governing Councils of their individual, member cooperatives. The *Standing Committee* further develops Congressional policy, oversees its implementation, and monitors the performance of the Corporation as a whole and its senior management body, the *General Council*. The *Standing Committee* appoints the senior manager of the Corporation—called the President of the General Council (a position and person distinct from the *Standing Committee* President)—and must approve his or her choices for the other members of this *Council*, consisting of the Vice Presidents of the Finance, Retail and Knowledge Areas, of the largest Divisions in the Industrial Area, and the Directors of at least two of the *General Council's* Central Departments, Finance and Social Affairs.

It is important to emphasize that while the members of the *General Council* do have substantial influence, they do not have traditional executive authority as found in conventional multinationals. They cannot impose a decision on a division or member cooperative company. Member cooperatives are legally (and, to a very large degree, operationally) autonomous; they joined Mondragon by a vote in each of their General Assemblies in 1991, and they can vote (and have voted, on occasion) to leave the group. The purpose of the *General Council* and other management structures is definitely not to centralize operational control, but rather to provide

[9] Each cooperative is assigned a number of representatives in indirect proportion to its size such that larger cooperatives have more representatives but a small number of large firms cannot dominate decision making.

overall strategic coordination and to fortify the provision of key business services to the group's member companies. They do this in areas such as in strategy, the search for economies of scale and other synergies, new technology and new business development, consulting assistance during difficulties, legal affairs, organizational development, internationalization, public and media relations, and others. As a result, the authority relationship between each cooperative company and its division/group Vice President, and the *General Council*, is bi-directional. It is one of ongoing communication, persuasion and negotiation, not of executive control from the top. Ultimately, Mondragon's management structure is that of a traditional conglomerate turned on its head, an "inverted conglomerate." The operational decisions and ultimate authority lie at the "bottom" with the individual cooperative companies and their worker-members.

A final note should be added along these lines. The chart is schematic; it does not represent the exact structure of the Mondragon Corporation in all its detail. A certain amount of variation exists among the divisions and groups. The chart seeks to provide a legible approximation of the group's complex of varying and interrelated structures.

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This concludes a brief introduction to the history and organizational structure of the Mondragon Corporation. We hope that it serves to provoke further reflection and research on cooperative firms as well as on the many other forms of broad worker ownership of enterprise. We hold out this hope not only because it would undoubtedly be beneficial to Mondragon, but clearly also because numerous contemporary observers feel that the questions raised by the employment contract, shared ownership and governance of enterprise have become centrally

important to management practise and sustainability concerns in virtually every kind of firm and in many different parts of the world.

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Figure 1 – Organizational Structure of a Mondragon cooperative firm

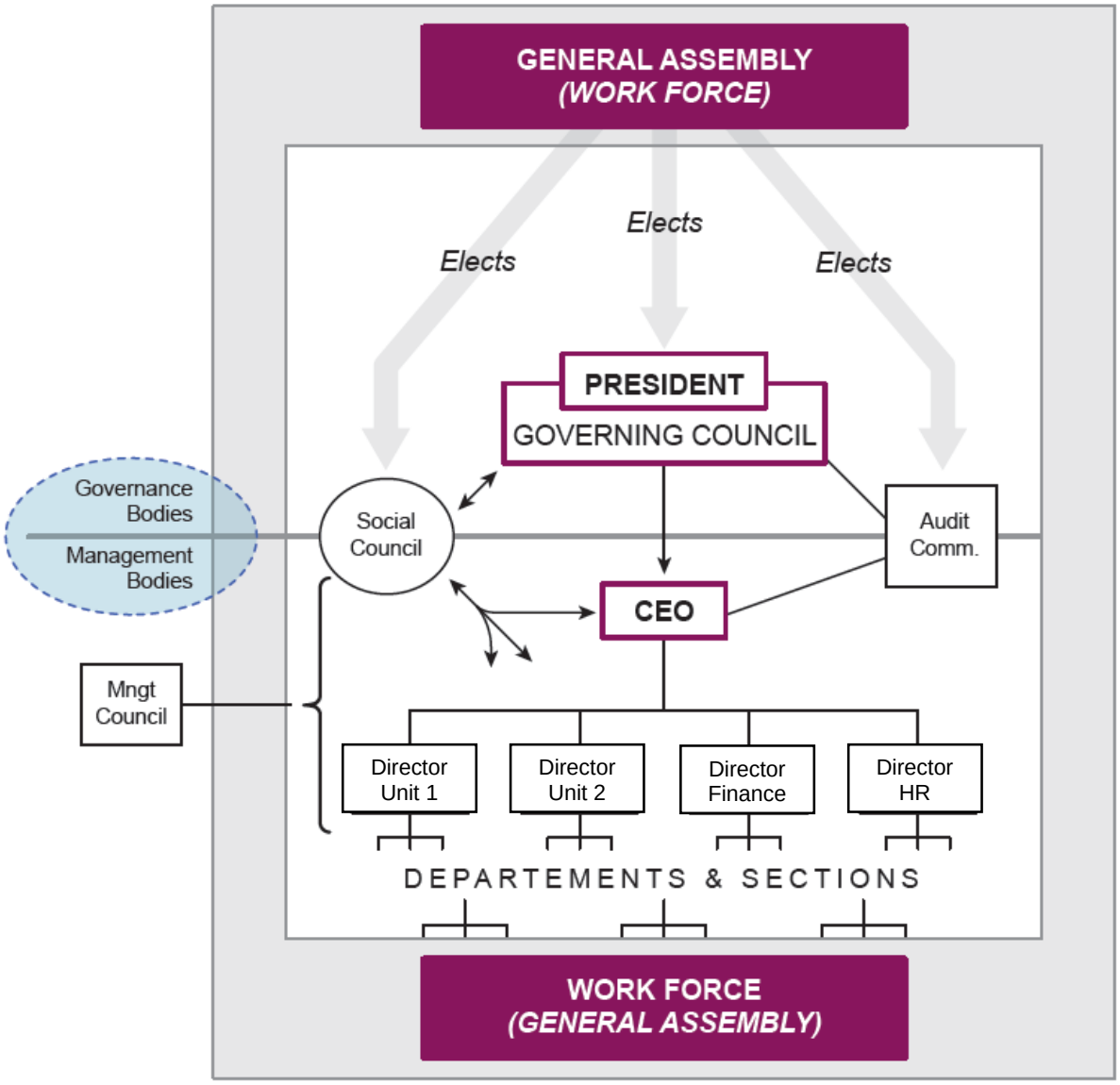


Figure 2: Organizational Structure of the Mondragon Corporation.

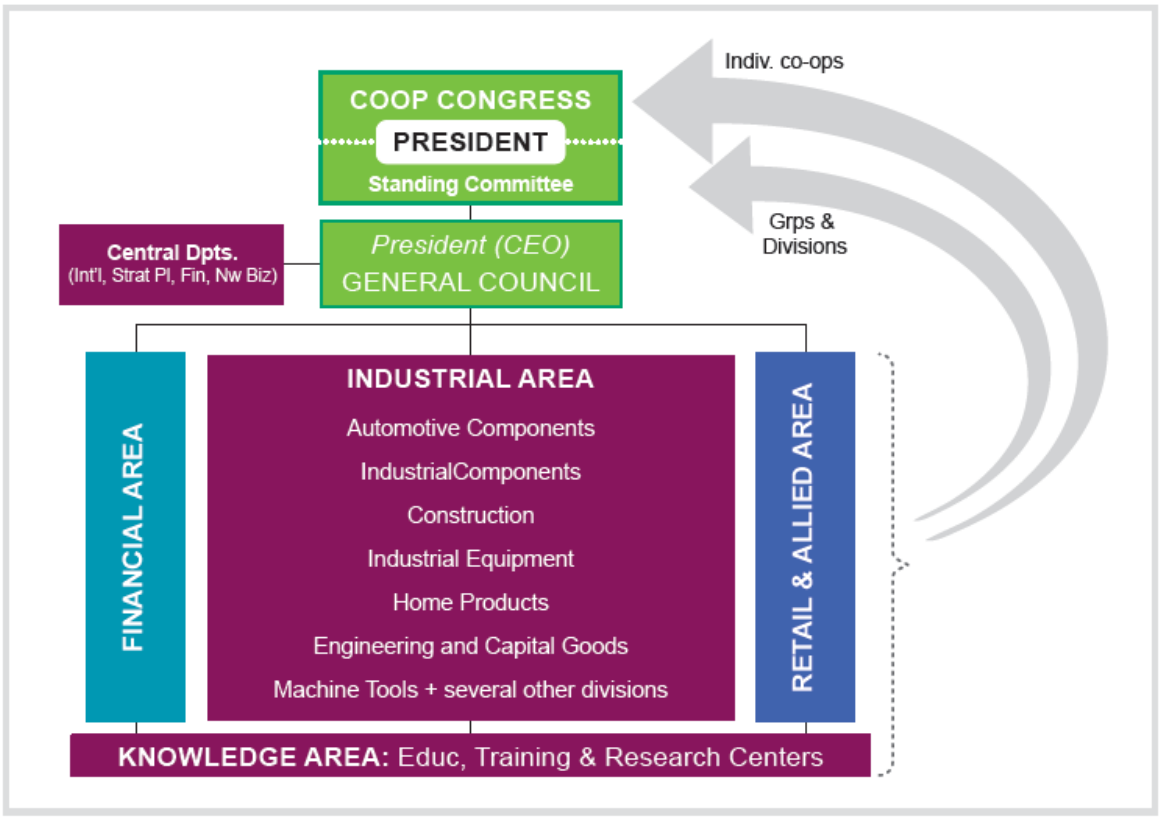


Table 1: Status of Labor and Capital in Cooperative and Conventional Enterprises*

Type of Corporation	Ultimate Control Status	Instrumental Status
Conventional corporation	***CAPITAL***	**LABOR**
Cooperative corporation	**LABOR**	***CAPITAL***

*Adapted from Mikel Lezamiz, Otalora Training Centre.

Table 2: Mondragon's Ten Basic Principles

1. Open Membership
2. Democratic Organization
3. Sovereignty of Labor
4. Capital is subordinate but necessary
5. Participation in Management
6. Pay Solidarity
7. Intercooperation
8. Social Transformation
9. Universality
10. Education