

## **The key factors of success of the Mondragon Experience.**

### ***Teachings for an inclusive participatory company model***

#### **1. Introduction**

Around two thousand people from all over the world visit Mondragon each year to learn about a unique business experience. For many years now, world-famous scholars, *management gurus*, social leaders from emerging countries, people linked to countercultural movements in western countries and those with deep-seated religious beliefs have visited this unique reality.

Nearly 50,000 visitors have come since a medieval tower-house was turned into the cooperative group's Otalora Training Centre, all sharing, to a greater or lesser extent, their admiration for the reality they observe and asking similar questions: What are the keys to this success that is so unique and yet so spectacular at the same time? Can the Experience be replicated with a view to resolving economic and social problems in other parts of the world?

The truth is that after 25 years welcoming people such as those mentioned above, nowhere in the world has managed to emulate such a unique reality (although it is impossible to gauge the extent to which it may have inspired practical solutions adapted to different realities elsewhere, which may very well have been the case).

The purpose of this modest article is to provide a summary response to some of these questions, without seeking to adopt an exhaustive approach, as this may logically have different viewpoints depending on each one's take on a complex reality.

Following this brief introduction, section 2 will provide some recent microdata on the Mondragon Corporation, an institution that does not in itself account for the Mondragon Experience in its entirety, although it clearly represents its main core.

Point 3, which is this contribution's central focus, provides different reasons that I understand have helped, to a greater or lesser extent, to explain the success of the differential path pursued, which we have broken down into the following sections:

- . Environmental factors
- . Arizmendiarrieta's influence
- . The critical factors of success for each cooperative
- . The reasons involving the cooperative ecosystem

Point 4 concludes with a thought on what we might consider to be an application of the Mondragon Experience to the business world beyond the legal status of the cooperative. It is applied to the economic reality of the Basque Country and Navarre, and in 2018 received unanimous support in the respective Basque and Navarrese parliaments from all the political parties represented in them.

## **2. Mondragon today**

The business corporation that emerged from the Experience inspired by the now Venerable Don José María Arizmendiarrieta, based on the principles and values of the Church's Social Doctrine, is now the Basque Country's largest business group. From its website (<https://www.mondragon-corporation.com/>) we highlight the following data corresponding to business 2017:

Workforce	80,818 (40,000 approx. owners)
Turnover	€11,936m
Investment	451 M.€
Social Responsibility	25.1 M.€

The overall Corporation is made up of the following companies and institutions:

Cooperatives	98 (82 in 1976)
Subsidiaries (limited companies)	143
Foundations	7
Pensions Fund	1
Corporate Co.	<u>17</u>
Total:	266

In turn, the cooperatives belong to the following business sectors:

• Industry	87
• Credit	1
• Retail	1
• Agriculture	2
• Services (Consulting, Insurance Co...., )	6
• Education	<u>1</u>
• Total:	98

They include companies with different legal formats (with cooperatives in the strictest sense of the term carrying increasingly less weight overall for a number of reasons) operating in different areas of business activity, although industry is the most characteristic one and, in turn, the one that stands out the most in the world of global cooperativism.

### **3. The keys to success**

#### **3.1. Environmental factors**

##### *. Mondragón’s isolation and the cultural background in the Basque Country*

When Arizmendiarieta arrived in Mondragón in 1941, it was a relatively isolated town, and it remained this way for several decades. Situated amongst mountains that form a narrow valley, and poorly communicated with the three main Basque cities of Bilbao, San Sebastian and Vitoria-Gazteiz, it is not on the road to anywhere specific. No one therefore expected that the solutions to the town’s shortcomings were going to come from outside.

The Mondragón Cooperative Experience (MCE) also developed within the framework of traditional Basque culture and its particular idiosyncrasies. It is described as having its own “cultural cooperativism”, as cooperation is the natural way of doing things.

Without wishing to fall into “cultural fundamentalism”, it is a factor that may explain why the development of cooperatives, even now today, is concentrated in those districts of the provinces of Gipuzkoa and Bizkaia in which traditional Basque cultural values remain strongest.

An illustrative example might be the fact that in Bizkaia, in the districts of Arratia, Gernikésado and Lea Artibai, where traditional Basque culture continues to thrive, cooperatives are by far the form of business that mostly drives local development, whereas they are almost entirely absent in urban settings such as Metropolitan Bilbao.

Taking the cultural component out of the equation when seeking to replicate or adapt the MCE may be a serious mistake, as indeed has been the case even within the Basque Country itself.

### *. A closed economy, protected from foreign competition*

The Spanish economy in the 1950s was closed and strongly protected from foreign competition. The almost sole challenge facing business activity is the production of goods.

All companies are ensured success when they can count on people who are well trained in technical matters and have an honest and organised administration.

It would be unthinkable today to start a business such as the manufacture of household appliances completely from scratch and without any prior experience.

This goes some way to explaining Mondragon's remarkable success at first, with the creation of 82 cooperatives providing 25,000 jobs in the first 20 years of the Experience.

Then there was the failure of the promotion of new cooperatives as of the 1980s, following the opening of frontiers, which brought an end to the process of creating new cooperatives that had been so successful in preceding decades.

### **3.2. Arizmendiarieta's influence**

Arizmendiarieta, an extremely bright young priest who had been born into a Basque cultural environment, was sent to Mondragón at the age of 25 where he became the undisputed leader of a group of young people who embarked upon the task of creating "more humane companies"

Educated in the principles and values of the Church's Social Doctrine and Christian Humanism, he was a practical idealist: "The ideal is to pursue the good that is possible, not the one we dream about" and he adopted a very hands-on approach: "Ideas that cannot be expressed in words are

meaningless; words that cannot be turned into deeds are of no use to anyone”

Arizmendiarieta did not have a cooperative project in mind, but instead one of social transformation, which began with a reappraisal of business based on the values of Christian Humanism. His motto: “Transform business to transform society”.

He began working not only on the technical training of a group of young people belonging to Acción Católica [Catholic Action], but also on their spiritual and moral education, instilling in them the need to serve the community’s needs by highlighting the values of solidarity and cooperation.

Brought up on traditional Basque cultural attitudes towards work ethics, thriftiness, cooperation and social responsibility, he laid the foundations for the MCE’s most deeply held values, firmly entrenched in the same cultural substrate as the one existing in Mondragón in the 1950s.

This thereby constitutes a common corpus of values accepted by everyone. Still very much in vogue today, these could be summarised as follows:

- . Respect for the human dignity of all.
- . Search for the Common Good, which means prioritising the needs of the collective project over those of its individual stakeholders (workers, shareholders...)
- . Agreeing that a company’s overriding aim is not to accumulate as much short-term profit as possible, but instead to create wealth and employment, while providing evenly balanced rewards for all its stakeholders.
- . Foster workers’ engagement in management, results and ownership.
- . Uphold criteria of internal solidarity among the different groups involved.
- . Maintain policies of solidarity with the community in which it operates.

### **3.3. The critical factors for each cooperative**

Within this context, we could highlight the following factors that are critical to the success of the Experience in terms of each company’s performance:

**3.3.1. *Special commitment shown by workers toward the business project,*** possibly the Experience's main differentiating value.

Albeit with a different level of intensity, it can be affirmed that people do not consider their place of work to be something alien to them. In the words of an independent British consultant: "We have not come across anyone who wants their company to fail, which is often the case elsewhere".

This absence of basic conflict and greater engagement with the business project may, in turn, be explained by the following:

**3.3.1.1. *Impact of differentiated corporate cultural values,*** in business operations, such as:

. The same human dignity for all, which not only entails the principle of "one person, one vote" for reaching decisions democratically and even electing the equivalent of a board of directors, but also a style of relationship that is respectful of the entire chain of command, thereby favouring teamwork and social cohesion.

. The shared value that the collective project's needs take precedence over the interests of the different stakeholders; in other words, there is a clear priority of the principle of the Common Good.

. Teamwork, fuelled by management systems that render it more efficient. It facilitates a frank acceptance of problems, open discussions on how to address them in practice, and greater acceptance of the solutions finally adopted, which are perceived as the outcome of a collective reasoning process and not a more or less arbitrary decision reached by executive managers.

. The criterion of transparency, at a level that could be described as "radical". It is informed by the above values, although it is in turn a critical factor when ensuring people are engaged with the business project.

. Commitment to the Community, which in the workers' case means pride in belonging to the company, as it is acknowledged socially for the contribution it makes to resolving the problems of the community in which it is embedded (which was historically more important when there were no public institutions in the Basque Country)

**3.3.1.2. *Economic reasons***

These include the following highlights:

. Worker participation in capital, with an average holding of €16,000, which requires a sacrifice to make a saving that has to be defended and which will reap its rewards.

. Participation in profits, which are distributed between Reserves and personal allocations to each member-worker, although they are not *monetarised*, as instead they are accumulated in each one's capital account, constituting a Pensions Fund for retirement, which increases the shared economic interest in the company's future.

In addition, they accrue interest (a type of "dividend"), at a rate of around of 4-4.5%.

### ***3.3.1.3 Management systems consistent with the values proclaimed***

The culture and values expressed also have their reflection in management practices that are very different to what is normal in traditional management. The following are some of the highlights:

. Information transparency, with systematic internal reporting procedures to ensure that all worker-members are informed about the company's progress, and not only in terms of the evolution of its key economic variables but also regarding the major issues or projects from a qualitative perspective.

Internal reporting is considered not only a necessary response to worker-members' rights, but also a management concern to ensure greater alignment between the business and each one of the company's overall needs and targets.

. Reduced salary range (currently, approximately 1 to 6 at company level ). Although this constitutes a certain drawback when attracting prominent professionals, this narrow salary range discourages the employment of people with an individualistic mindset and who are looking for high personal reward.

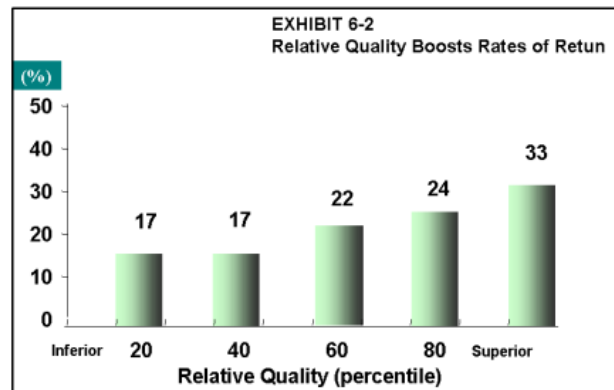
Furthermore, it favours social cohesion and teamwork

### ***3.3.2. Strategy based on quality and innovation***

Michael Porter - the father of strategic thinking applied to business – identified two basic strategic alternatives: differentiation by costs and differentiation by quality (drawing attention to the fact that most companies lack a strategic decision on the matter, which is all the more necessary as the process of globalisation advances).

A few years later, in other research conducted at Harvard University called *Profit Impact of Marketing Strategies*, which measures the correlation between ROE and different basic strategies, the conclusion was that “perceived quality” is the variable with the highest correlation with ROE, as shown in the attached table.

## ESTRATEGIA BASADA EN DIFERENCIAL DE CALIDAD



Juan Manuel Sinde

Against a backdrop of globalisation and the need to compete with companies in countries with much lower salary costs than our own, the cooperatives have been opting for a strategy of “differentiation by quality”, which records such good results in the aforementioned empirical studies. A strategy whose outcome is a differential effort in innovation, as illustrated by the fact that the MONDRAGON Group now has 15 sectorial technology research and development centres and has filed 705 patents.

### 3.3.3. *Reinvesting profits*

As noted earlier, part of the profits are distributed, but they are not *monetarised*, but capitalised instead. They provide the basis for new investments and new business initiatives within the cooperative itself.

This capitalisation policy was especially important in the early years, although it remains in place today.



### ***3.3.4. Fiscal benefits***

Fiscal benefits in different taxes (but particularly in Corporation Tax) were also very important in the early days, when the effort made in capitalisation was especially necessary.

This has traditionally been a bone of contention among employer associations, as at first they attributed the cooperatives' business success almost exclusively to these benefits.

Today, a highlight in this field is a rate of taxation for Corporation Tax that is 10 points lower, which is the same as the mandatory provision for the Education and Development Fund.

(It should be noted that this provision has been wisely used to promote Research Centres, the Group's own university, partnerships with NGOs of different kinds...)

## **3.4. Reasons involving the corporate ecosystem**

In terms of the sum of institutions that make up the "corporate ecosystem", we should single out the impact of the following factors:

### ***3.4.1. The support of Laboral Kutxa***

Together with other factors of a cultural nature and workers' greater shared responsibility in the collective project, the business dimension achieved can not be understood without considering the support of Laboral Kutxa, the group's financial institution.

It was promoted by Arizmendiarieta, despite the unanimous rejection of his disciples, as a credit cooperative for financing and driving the development of cooperative businesses.

In its first 25 years it exploited, on the one hand, the advantages of a protected and inefficient Spanish financial market, and on the other, the absence of controls by the Bank of Spain over cooperative financial institutions, for financing the incorporation of numerous cooperatives, which by 1976 already amounted to 82. (A number of companies, nevertheless, that was very low for concentrating the Caja's credit investments)

In due course, now obliged to diversify its risks outside the cooperative group, it has recorded outstanding business success, whereby its allocation

of 25% of its annual earnings to the overall project has meant that the latter has received a sum of approximately €500m over the past 20 years.

The initial credit facilities, the dedication of an entire structure at the Caja (the so-called División Empresarial [Business Division], today transformed into an independent consultancy firm) for supporting and promoting cooperatives, and the subsequent financial contributions have been crucial factors for explaining the survival of some cooperatives, the incorporation of others and, in general, the backing for the entire corporate project.

### ***3.4.2. Solidarity and worker-members relocation funds***

The Caja's contribution, despite being by far the most important one qualitatively, has not been the only one when funding the established solidarity funds that have been decisive when shoring up normally profitable businesses going through a difficult patch and enabling new business developments to be made, especially abroad.

Approximately 10% of each cooperative's earnings have been added to these solidarity funds, which constitute yet another of the Mondragón Experience's differential features.

Yet this has not been the only mechanism of cooperation among companies. The relocation in some cooperatives of occasional surplus staff from others has also been vital for maintaining employment, at least for the worker-members of cooperatives that are part of the Corporation.

### ***3.4.3. Corporate management model and sharing of Best Practices***

From the beginning, the MCE gave a great deal of importance to quality in management, and Caja Laboral oversaw the implementation in small cooperatives of management systems that were the hallmark of more developed companies.

The definition of a corporate management model, a unique adaptation inspired by the one proposed by EFQM, has likewise been one of the corporate supports for the competitiveness of individual cooperatives.

A relationship of trust among the cooperatives has likewise enabled the extension of Best Practices in certain management ambits such as finances, the management of quality, Human Resources, internationalisation...

#### ***3.4.4. Support and relocation of management teams***

The cooperatives' management teams have to face two challenges that are often contradictory: achieve economic results that satisfy the worker-members, and do so in a due and proper manner; in other words, without requiring socially excessive efforts accordingly.

This sometimes leads to the personal exhaustion of managers subject to especially tiring circumstances. Relocating these executives in other cooperatives or corporate bodies enables them to act with added responsibility when making business decisions that are sometimes unpopular.

#### ***3.4.5. Task of lobbying the public administrations***

Another major task undertaken with some significant success by the Corporation has been the defence of common interests before the public institutions, both in the Basque Country and in Navarre, as well as nationwide.

The influence on the legislation that affects the cooperatives, tax regulations, or stimuli for innovation programmes, internationalisation, improvements in management... rolled out by the aforementioned autonomous communities tend to receive the Corporation's contribution and input, in a way that the cooperatives would be unable to manage on their own.

### **4. Outside application: An *inclusive and participatory business model***

All-in-all, and as mentioned at the beginning, Arizmendiarrrieta's mission was not only to improve the standard of living and the personal development of a small group of workers, but also "transform society".

His followers, gathered together in the Foundation that bears his name and in cooperation with other people and institutions, are seeking to exploit the rich experience described to propose changes both in the business model and within the socio-corporate sphere.

A specific proposal has been put forward within this framework, which does not seek to deny the existence of different interests between capital and labour, nor to aspire to any form of exclusivity, but instead looks for new ways of channelling that conflict through the engagement of a company's employees.

It is based on the consideration of the major contribution business can make to the Common Good, with what this means for the creation of wealth and employment.

It is not a rigid or definitive model. It can therefore be adopted in a modular and partial manner, and not necessarily in full.

As noted, its implementation needs to be marshalled by employers, albeit with the support of workers' delegates and the public institutions, as well as all the other social partners (universities, training centres...).

The new model rests on the following specific pillars and policies:

**Pillar 1: Modify a company's management practices and culture, basing them on trust, transparency and cooperation for its competitiveness and sustainability.**

This will be embodied in the following:

a) Create a climate of trust through a policy of information transparency, regularly informing employees about the company's main variables and policies, with the obvious exception of those that may be strictly confidential.

b) Implement an organisational model and participative management to overcome Taylorism and foster employees' involvement with a view also to furthering innovation and business sustainability.

c) Programme and develop systematic training plans that cater for both technical and management training. For example, a target could be oneweek's training per person and year, with this applying to at least 80% of the workforce each year.

d) Roll out wage policies that do not create serious inequality and instead favour social cohesion. A useful guideline could be a salary scale with a ratio of no more than 1:6 for SMEs, with the recommendation therefore being for remuneration to include some share of the company's earnings that can be extended to the entire workforce.

e) Introduce regular assessment and continuous improvement systems for employee satisfaction and the fulfilment of their needs. An example of this might be to hold a systematic satisfaction survey every two years.

f) Prioritise (although not exclusively) internal promotion for assigning duties of greater responsibility and use objective criteria for assessing merit

and the contribution an individual may make when choosing between the different candidates.

g) Ensure equal pay between men and women.

h) Seek formulas that favour the reconciliation of work and family life for everyone without compromising business development.

**Pillar 2: Draw up a common project among the company's employers, managers and employees, providing long-term benefits across the board and in which priority is given to the sustainability of the collective project over and above any one of these specific groups.**

This will be embodied in the following:

a) Develop balanced incentives for shareholders and employees at the same time, with the joint goal being to improve both the return on investment for the former and the latter's overall wage packet.

b) Earmark at least 50% of annual earnings for increasing the company's equity, thereby providing for investment in hardware and R&D&i activities, and therefore the company's development and sustainability.

c) Allocate a percentage of turnover to R&D&i activities that exceeds the industry average.

**Pillar 3: Take steps to overcome the dynamics of confrontation between capital and labour by engaging employees in management, earnings and ownership.**

In all cases accepting that these three ambits may be addressed in partial and separate ways or as one, their pursuit will lead to the following:

a) Introduce participative management systems, with suitable tools and procedures, which bring about innovation and organisational changes. This will lead to shared responsibility for the business project's significant decisions that will involve both the executive and representative lines.

It will include talks with employees' delegates over those decisions of greater importance for the company that do not need to be treated confidentially.

b) Incorporate one or more employee delegates in the company's decision-making and governing bodies, with the recommendation being that, apart from in exceptional cases, those delegates are not members of the Workers' Committee.

c) Pave the way for collective access to a share in the company's capital, looking for financing arrangements and suitable time frames for its effective implementation.

This could involve either monetary contributions paid by those employees that voluntarily join a scheme open to everyone or contributions made by the company itself, as a share in the earnings forthcoming from the collective wage bargaining agreement.

d) Support from the company for employees to gain a share of its capital, financially supplementing their access to ownership, with a pre-set limit.

e) Consider the development of a mediation committee for resolving internal conflicts, with the possibility of extending its mandate to conflicts with suppliers, customers, environmental issues, the local community, etc.

#### **Pillar 4: Awareness of the social impact of business operations and involvement in some of the social issues in the community.**

The aim would be to gain a specific understanding of the social impact of the measures taken at business level and, insofar as possible, take part in their solution. This would involve the following actions:

a) Observe a policy of tax compliance, avoiding fraud and tax evasion, as well as the use of tax havens, whereby there is no erosion of the public funds required for tackling the economic and social challenges the Basque Country and Navarre are facing.

b) Take part in the discussion, assessment and, as appropriate, implementation of corporate policies for the employment of less qualified workers that may be "excluded" from productive processes because of the impact of new technologies or their personal circumstances.

c) Liaise with the corresponding public bodies for the ongoing adjustment of occupational training, lifelong training and higher education to business needs, introducing dual training plans, in-company placements, and appropriate service and learning schemes; in short, maintaining a permanent dialogue between the business and educational worlds to build a common project.

d) Allocate 1%-3% of the company's earnings to help resolve social issues, cooperation for development, collaborating with higher education in matters related to the company's corporate purpose, etc., assessing employees' engagement in projects and doing so jointly with the Workers' Committee.

e) Encourage intrapreneurship and an in-house culture that stimulates business vocations among the company's employees and management, enabling them to generate new projects that create wealth and jobs for the community.

To advance toward this model, and also as a way of reinforcing regional ties and the continuity of companies in the Basque Country and Navarre, helping to resolve any issues of succession they may encounter, the regional parliaments, in both cases by unanimous agreement of all the parliamentary groups, agree a draft resolution as follows:

Urge the respective Basque and Navarre governments to draw up an action plan for promoting an inclusive-participatory company model, for its debate in this and forthcoming legislative terms in which, among others, the following policies are to be considered:

a) Support the dissemination and implementation of participative management systems that reflect the inclusive-participatory model, extending them to the definition and application of Best Practices in internal reporting policies in companies in the Basque Country and Navarre, the definition of objectives, the choice of indicators..., which are considered essential for the proposed change.

b) Likewise, stimulate the implementation of systems for involving employees in a company's earnings, helping to identify the most successful mechanisms at both local and European level.

c) Facilitate employees' access to a company's capital by providing funds that are proportional to each employee's contribution, with a set limit.

d) Identify Best Practices in other countries regarding those fiscal policies that help to drive employees' share in ownership by studying, among other measures, the possibility that employees' contributions to the capital of the company in which they are working have the same tax treatment as the contributions they make to pension or welfare plans.

e) Study the necessary legal formulas and, as appropriate, the drafting of a law that improves current legislation, and/or design a particular legal mechanism that better suits the requirements of sharing power and earnings according to the specific criteria established by the employees involved.

f) Create a Register of Investee Companies, which may help to provide legal certainty for the measures arbitrated in their promotion, and which can record

those with a share of capital that exceeds the minimum level established, and which likewise meet any other terms and conditions that may be laid down.

g) Collaborate on the design of the assessment model for the implementation of the inclusive-participatory model, with a checklist that helps companies to identify the progress made.

h) Cooperate in awareness campaigns targeting employers and employees that foment the proposed inclusive-participatory model.

i) Honour those companies that stand out in the model's implementation by arranging some kind of suitable award or acknowledgement.

j) Arrange training aspects in business management, strategy... targeting members of Workers' Committees, labour delegates, full-time union representatives... both separately and in tandem with the companies involved.

k) Budget the necessary funds for the model's dissemination and the execution of the specific action plans.

l) Any others that may be applicable to the model.

m) Call upon the Work Committee in both parliaments to conduct an annual monitoring of compliance with the recommendations approved.

Bilbao, October 1st,2019