Industrial Democracy at Mondragón: Institutions and Social Relations

Born in the Basque region of Spain in 1956, Mondragón Cooperative Corporation is a federation of cooperatives whose impressive size and economic success has drawn international attention. It has been described as a “world-wide economic tourist attraction for those who criticize capitalism's excesses and seek a more just economy.” (Kasmir, 1999:380) Yet from within a different story emerges.

In this essay, I juxtapose widespread admiring reviews with the expressions of Mondragón worker-owner dissatisfaction and claim that disproportionate attention is being paid to institutional design solutions at the expense of the role social relations must play in realizing a progressive alternative. However, the argument should not be misconstrued to be in favor of a reversion from institutionalized society to a romantic image of times past when social relations had not been dehumanized by institutionalization.

For reasons that will be elaborated later, this essay is also not intended as a critique of Mondragón per se; I am not making an argument whether Mondragón is or is not an example to follow. The intention rather is to highlight for those with transformative ambitions the different elements that must be analyzed in conjunction, and not just in isolation, to develop a better understanding, namely legalized institutions and social relations.
These Mondragón worker-owner complaints have been recorded by the participatory action research project (1984-1987, 1992) undertaken in conjunction with Mondragón staff by Davydd J. Greenwood, Goldwin Smith Professor of Anthropology at Cornell University. I rely on Greenwood’s book, *Industrial Democracy as Process: Participatory Action Research in the Fagor Cooperative Group of Mondragon* for much of the ethnographic material on worker dissatisfaction.

As for theoretical frameworks, the claims in this essay rely heavily on the works of anthropologist James Scott and social theorist Roberto Mangabeira Unger. I give a quick review of the primary ideas extracted from their work to provide an initial context before continuing on with the main thrust of this essay.

In James Scott’s *Seeing Like the State: How Certain Schemes to Improve the Human Condition Have Failed*, he critiques High-Modern utopian interventions on behalf of the State for their strategy of ‘simplification and homogenization’. Here I extrapolate this framework from his discussion of the State and apply it to a firm. As an industrial democracy, the analysis of Mondragón is arguably at the intersection of literature on democracy in politics and organizational studies of firms, consequently analysis can draw on and has repercussions for both fields. This may have facilitated the translation from Scott’s strategy of a polity to the present strategy of a firm, although I hypothesize that it is a common strategy for all actors overwhelmed by complexity in the world. Beyond transferring this strategy onto another actor, in this essay I will view institutions as simultaneously a product and an executor this simplifying strategy.

The central idea extracted from Roberto Mangabeira Unger’s work deals with the relation individuals have with the institutional frameworks we create.
...we are the infinite caught within the finite. The finite, in this instance, is the open series of social worlds – formative institutional and imaginative contexts that we construct and inhabit. The infinite is the personality... Central to the whole argument of Politics is the notion that no one context can be our permanent home: the place where we can institute all the varieties of practical or passionate connection that we have reason to want. (Unger 2004:12)

The rest of this essay is broken into three sections. The first section, ‘An Alternative?’ will review in more depth the glowing reviews of Mondragón, highlighting their focus on institutional design as the key element. The second section ‘Democracy's Institutional Promises’ will explore democracy as an ideal, and the institutional promise often attached to it. The third and final section ‘Mondragón Worker-Owner Dissatisfaction’ will analyze Greenwood's ethnography of Mondragón worker-owner dissatisfaction and advance the claim that the importance of finding the right institutional design needs to be examined parallel to the social relations that breath life into it. A discussion showing how power at Mondragón is not necessarily bounded or produced by institutions will serve to challenge the dominance of institutional solutions to human problems.

An Alternative?

The charismatic priest Don José María Arizmendiarrieta lies in the center of most stories of the origin of Mondragón Cooperative Corporation. His intense desire to improve the opportunities available to the youth of the region involved the community in the creation of a technical school and the ongoing promotion of the continuing of their education. In 1956, five graduates from the technical school he founded joined together after working for a couple years to form the first
cooperative of what would become Mondragón. Motivated by their ideal of “want[ing] to create a firm that better fit their views about the dignity of work and social solidarity” (Greenwood 1991:20), more than 50 years later, the fruit of their labor may be seen as having advanced the ‘imaginative horizons’ of the possible while creating a new hinterland of possibility. (Crapanzano 2003) Mondragón is at the forefront of the imaginable when it comes to economic success amongst cooperatives, but as it pushes these imaginative limits, a new forefront begins to appear. This is part of the wonder of being human at the center of this essay. As contrasted with the institutions we create at a given point in time, our imaginative horizons are flexible, they may appear fixed but in fact are malleable.

Today’s figures associated with Mondragón are indeed impressive, the Mondragón website proudly highlights that it has “more than 83,000 employees, 9,000 students” and “256 companies and bodies, of which approximately half are co-operatives.”¹ “[Mondragón is] eleventh in the ranking of the major Spanish Companies, and has production in four continents”² Additionally, in 2010, the federation lists having assets worth €33,099 million³. This locates the size of Mondragón’s assets in the Forbes 2000 Global rankings between those of large corporations like British American Tobacco (€33,670 million) and SAB Miller (€29,363 million) ⁴

Beyond simply its vast size, it is a source of inspiration for actors as diverse as “social-justice-minded scholars and activists” and “managers at multinationals

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² http://www.mondragon‐corporation.com/mcc_dometnuke/Portals/0/documentos/eng/Corporative‐Profile/Corporative‐Profile.html
⁴ http://www.forbes.com/global2000/ - p_53_s_dassets_All_All_All
Conversion from USD to Euros calculated on January 14th, 2012 at 0.783, with http://www.x‐rates.com/calculator.html#
like Polaroid” (Kasmir, 1999:380). Additionally, in a 2010 interview, Erik Olin Wright highlighted worker-owned enterprises - specifically Mondragon Cooperative Corporation- among the 5 proposals “[reflecting] the diversity of institutional designs for moving along the pathways of social empowerment”.

While the descriptions of Mondragon are not all positive, the focus on its institutional design remains central. Sharryn Kasmir states, “[the] Mondragón-inspired cooperation is part of a broader cultural and ideological attack on unions, political parties and working-class activism.” (Kasmir 1999:395) Kasmir takes issue with the intersection of interests of multinationals and progressives, concluding that rather than a mere coincidence; cooptation and manipulation are at the root of it. She claims the cooperative institutional design prevents the realization of alternative institutional arrangements that would be truer to progressive ideals. While this essay does not examine these other institutional arrangements (unions, political parties and working-class activism), the implication from its conclusions based on the cooperative institution at Mondragón would suggest that these institutional arrangements would similarly suffer from attempting to reduce the irreducible. Institutions are fixed interpretations and so unable to incorporate the full diversity of human experience and its evolution.

Through Greenwood’s participatory action research project, Mondragón itself presents a third view, "We do not view the Fagor cooperatives as an alternative to capitalism; they exist within a capitalist society and operate according to many of its rules... Fagor's success shows that more democratic and

http://www.zcommunications.org/envisioning-real-utopias-by-erik-olin-wright
humane relations of production are possible within capitalism.” (Greenwood, 1991:40)

To make sense of these contradictory interpretations of the Mondragón case it is helpful to clarify the terms in question. The binary options of ‘capitalism’ and ‘an alternative’ are problematic because they are poorly defined entities and furthermore, a composition of multifaceted subcomponents rather than integral systems. Within the same system what may according to one variable be ‘an alternative’ may simultaneously not be considered ‘an alternative’ for another variable. Unger explains the conceptual problem by stating that, “Such abstract institutional conceptions lack natural and necessary institutional expressions. We can develop them in different directions, drawing upon the internal relation between our thinking about practices or institutions and our thinking about interests or ideals.” (Unger 1998:25)

I claim these ‘abstract institutional conceptions’ (e.g. capitalism, an alternative, democracy) are themselves a result of James Scott’s strategy of ‘simplification and homogenization’. They are attempts at bringing that which lies beyond holistic comprehension within manageable bounds, but somewhere along this reductive process it has been forgotten that the resulting objects of study are not actually the initial reality observed.

Thus the false dichotomy proposed in this debate believes that the world currently faces two options, Capitalism or Not-Capitalism. However, this fails to understand our global system as a composition of pieces, any of which might be changed independently without having to change the whole system. This provides a possible explanation as to how “social-justice rhetoric, premised on the Mondragón model, served to reinscribe capitalism, even as it critiqued it” (Kasmir
The hidden displacement of the object under discussion, ‘capitalism’, is what permits the term to be both critiqued and reinscribed. Rather than speaking of ‘capitalism’ and an ‘alternative’, I argue that it is fruitful to speak more specifically about elements of it, in this essay, namely the institution of industrial democracy and the corresponding social relations.

Building on Mondragón’s self-interpretation of not being an alternative, but rather evidence that “democratic and humane relations of production are possible within capitalism”, I will examine the social relations at Mondragon. I argue however, that the democratic institutional design on its own fails to ensure the humane relations of ‘dignity of work and social solidarity’ set out by its founders. As will be seen in the next section this argument should be understood as positioned against Adam Przeworski’s elaboration of the benefits of a minimal conception of democracy.

It should now be becoming clear why I indicated in the introduction that this essay did not attempt to enter a debate as to whether Mondragón was an example to follow or not. The institutional framework of industrial democracy as it exists in Mondragón may be transplanted elsewhere, but this would be just one element of what constitutes Mondragón. Transplanting the institutions themselves will not ensure a replica elsewhere. The idea of democracy will now be looked at in more depth to better understand the hopes typically attached to its institutional design.

Democracy’s Institutional Promises

As mentioned in the introduction, for the sake of this argument, the industrial democracy of Mondragón Cooperative Corporation falls at the intersection of at
least two major literatures: democracy and organizational studies. The analysis of each is fruitful with respect to understanding Mondragón and inversely, the analysis of Mondragón may serve to give feedback to both literatures.

It is Mondragón’s perceived success in both the fields of democracy and economics, which make the example so alluring. In so doing, it seems realize the “first hope of the democrat” which Unger defines as “to find the area of overlap between the conditions of practical progress and the requirements of individual emancipation.” (Unger, 1998; 5)

Democracy however, is a complicated term, used by some in more expansive ways than others. It is often seen as universally good and tending to produce desirable outcomes as widespread as “diminish[ing] injustice and oppression”, “protecting human freedom and facilitating economic growth”. (Shapiro and Hacker-Cordón 1999:1). In the case of Mondragón, the institutional arrangement of industrial democracy is expected by some to lead to more humane relations.

In, a Minimalist Democracy, Adam Przeworski elaborates how various authors have understood democracy and argues in favor of a minimalist conception of democracy. He holds democracy to be a preferable political system even if by the term one just means a system with elections. This however, is based on an assumption of rational beings that strategize through cold calculation how to achieve their best interest. It presupposes that their interest is fixed over time and unaffected by the process. Unfortunately for the efficacy of formalized institutions people cannot be so easily ordered.

Przeworski begins by asking, “Are there good reasons to think that if rulers are selected through contested elections then political decision will be rational, governments will be representative, and the distribution of income will be
egalitarian?” (Przeworski 1991:25) This question represents the type of error this essay's argument attempts to correct. If we are interested in humane relations, being ‘representative’ and ‘egalitarian’ are insufficient substitutes. The vast desired outcomes attributed to democracy are in part a result of these close approximates. Mondragón may be more representative and have more egalitarian pay, but this is not the sole concern with respect to ‘humane relations’.

Przeworski values democracy because the collective decision making power is more powerful than that of a single individual. “Hence, democracy is likely to yield decisions superior to those made by any single individual, even if the dictator is exceptionally wise.” (Przeworski 1991:27) Here it is assumed that there is a ‘best’ decision and the question is simply how to discover what it is. This mirroring of the Condorcet Jury Theorem, by placing trust in rationality and majority rule to select the right end, however misses that what matters most may not be the end itself but the means to it. Humane relations may involve more than simply granting the best possible world to the largest number of people, since how that ‘best possible world’ is identified may itself alter individuals’ interests.

To clarify, the argument is not that each of us have different conceptions of what might be best – although this is of course true – but rather, that what I might consider best now may change depending upon a whole host of factors, including the manner in which ‘the best possible world’ is identified and granted. Through a process perceived to be negative of identifying and granting it, I may in fact, cease to find said world to still be in my interests.

One might jump at this point to defend Przeworski on the grounds that he was arguing for the best method at achieving the correct result to a particular
problem. But this is the challenge with an institutional solution – its fixed nature prevents it from adjusting to the perspective of interest.

Psychologist Barry Schwartz describes how rightness depends upon context. In reference to gender equality concern arising in a seemingly simple intramural baseball game, he states that, “I came to realize that the rightness of that choice depended on what I thought the game was that we were playing.” (Schwartz 2000:79)

If confusion can arise regarding interpretation of relatively mundane events such as which player to throw a baseball to in a casual sports event, one can imagine the corresponding increasing in confusion correlated with increased complexity of the situation. That people have a particular skill for interpreting the appropriate application of a rule, which also seems to resist a generalized codification, presents a problem for formal institutions.

By contrast, “formalized institutional arrangements are considered more likely to be robust and enduring than informal ones,” (Cleaver 2004:40) formalized institutions must necessarily treat individuals as dehumanized objects but by so doing ensure a greater permanence and consistency. An institution such as industrial democracy may therefore alienate while codifying social norms for solidarity. These last two points show how institutions and social relations have opposing and complimentary characteristics in the maintenance of a social order.

Returning to Przeworski, his focus on outcome based over the means, is an important step for Przeworski’s faith in justifying coercion:

It is voting that authorizes coercion, not reasons behind it... Deliberation may lead to a decision that is reasoned... But if all the reasons have been exhausted and yet there is no unanimity, some people must act against their reasons. They are coerced to do so, and the authorization to coerce them is derived from counting heads, the
sheer force of numbers, not from the validity of reasons. (Przeworski 1999:48)

This perspective highlights how deliberation may be undertaken as an institution without it fulfilling the intention implicit in the concept. Deliberation here is mutilated into a process of discussing opinions, going through specific motions, before the actual process of deciding occurs through voting and followed by coercion. It is the known insincerity of the act, which robs an institution from the value it is intended to have. Speaking of deliberative democracy, Przeworski says, “There is nothing that guarantees that deliberation, even if it satisfies all of [Cohen’s] (1989 and 1997) stipulations, will lead to a consensus about the common good” (Przeworski 1999:30)

Perhaps this is the very problem, the quest to guarantee strives to eliminate humanity with the imposition of cold laws, which then can never re-build what it has removed. Recalling James Scott’s critique of the High-Modernist utopian interventions, it was their need to control that led them to most forcibly employ their strategy of simplification and homogenization.

The following section of this essay will speak how power is employed in Mondragón, independent of the legalistic definitions of ownership in an industrial democracy.

**Mondragón Worker-Owner Dissatisfaction**

“What is the secret to the Mondragón Experience’s success?

*The personal nature of the co-operatives, in which people are given priority over capital, an attitude which results in a high level of worker involvement in the company, through direct participation in both the*
capital and the management. All this contributes to creating a positive atmosphere of consensus and collaboration.\(^6\)

The description of the founders of Mondragón contrasts sharply with the image of Mondragón today. Their recorded sentiments manifest a belief in limitless possibilities and optimism for those with sufficient determination. The description of one of the founders of Mondragón as “the fruit of empiricism and of unlimited daring” (Greenwood, 1991:20) evokes the image of it being created without a mold and against established conceptions of the possible.

This image of technical students turned heroic figures without limitations is supplemented by the image of their mentor, one analysis of José María Arizmendiarieta’s statement that ‘I have no power’ indicates that, “if we mean by power-holding an executive position entitling him to make decisions for his organization, that statement is true. He never held an official position beyond that of ‘advisor,’ yet, he wielded enormous influence on the design and growth of the cooperative complex.” (Whyte, 1995; 61) Both images portray examples of immense power that is not confined to established boundaries. The technical students who would create the world’s largest cooperative did so through experimentation and daring, not by following a set of instructions provided by their superior. Similarly, the man who led them to this great accomplishment did so, not from a position of institutionalized power but rather as an advisor, a peer, someone they could listen to or ignore as they saw fit.

The relation between the founders and their mentor is illustrated nicely by the following quote of one of the founders. “We told him, yesterday we were craftsmen, foremen and engineers. Today we are trying to learn how to be

managers and executives. Tomorrow you want us to become bankers. That is impossible.” (Oakeshott, 1990:175) It is important to note that this perceived impossibility was in fact realized. The five once technical students ‘became bankers’ by successfully opening a credit union that to this day still provides valuable services to the other cooperatives.

What both of these representations manifest is power uninhibited and uncoerced by social categories. Technical students becoming ‘craftsman’, ‘engineers’, ‘managers’ and ‘bankers’ as necessity dictates rather than incarcerated by the role they have acquired from diplomas. The case of José María shows a man without an official position yet exerting a wide influence, and for subsequent decades. The impossible was achieved, and not through an institution of control but rather by social relations that released control.

These images sharply contrast with the voices of Mondragón’s worker-employees today where they are formally granted rights but do not experience them as one would expect. One worker-employer describes past times in which “if you saw a piece of scrap on the floor, you picked it up because it was worth a duro [a 5 peseta coin]. Today you give it a boot, because today the cooperative doesn’t belong to all of us.” (Greenwood, 1991:133)

Greenwood highlights how a legalistic perspective runs up against a wall, recording the frequent reference and definitions of extreme hierarchy perceived by worker-owners despite being “contradicted by the legal realities of cooperative membership.” (Greenwood 1991:111) The feeling of ownership that the worker-owner speaks of has nothing to do with titles, deeds or formal ownership. Rather, it has more to do with a sense of belonging. Worker-owners at Mondragón may
have formal ownership and formal voting rights but a sense of alienation perseveres because of the social relations.

It is important to note that social relations are not a uniformly positive force fighting against the dehumanization of fixed institutions. The argument deals with the importance of transforming both institutions and social relations not the abandonment of institutions to return to an idyllic world where only social relations guide us. “This extra-institutional politics of personal relations must work together with the politics of institutions. Neither can achieve its objectives without help from the other. Each will find its work limited by the other’s accomplishment and failures.” (Unger 1998:258) This helps explain again, the problems with the discussion of an alternative, since advancing in the realm of institutions may permit advancing towards progressive ideals in the realm of social relations and vice-versa, an appropriate institutional design for the current time may not be appropriate at a later point.

Industrial democracy at Mondragón is an example of this changing appropriateness of institutional design. Bringing democracy into commercial enterprise was expected to eliminate alienation, since the company belonged to the worker-owners. However, concerns ranging from the value of voting to the management of information suggest unanticipated complications

One worker-owner indicated, “We, the underlings, have neither voice nor vote. Yes, we vote, but since we aren’t told everything, in the need, we vote for what they want, what the bosses want.” (Greenwood 1991:111) Despite having the right to vote, worker-employees at Mondragón express feelings of alienation from the firm they own. While they have institutional voting rights, their statements indicate that they do not believe these rights have significant value.
Kasmir describes a related story of another worker-owner named Begoña. But instead of reclaiming her right to participate and to vote, she complained about having to participate that has no interest in ownership. For her, Mondragón is just a place to earn income and the ‘participatory’ processes are forced upon her.

‘Everybody goes because they have to. If we did not have to, we wouldn’t go.’ What Begoña resented most was being manipulated by the ideology of cooperation; she hated being told by managers ‘it’s your firm’ (Kasmir 1999:387)

The fixed participatory institution designed with the normative goods of freedom and autonomy in mind is not able to incorporate Begoña’s desire to be free from the process.

Related to information, the confusion about member complaints of being included or excluded may initially seem impossible to rationally integrate, but this is just the problem. By trying to define a static categorization or institutionalization, the product inevitably runs up against the infinitely more complex individual. While one worker-employer said, “The fact of not being informed makes you feel out of it. The truth is that here they don’t tell you anything” another commented just the opposite, “Information? There is too much. It should be culled and we should be given only what is necessary.” (Greenwood 1991:119) Greenwood states, “This is a classic problem of democracy. Both extremes, managerialism and massive participation in every decision are unattractive.” (Greenwood 1991:136) A single formal institution dutifully followed cannot encompass these extremes without a social reinterpretation of the specific context.

From an objectivist perspective, complaints of the concentration of power coming from all levels is a contradiction in terms – hierarchy without ‘an above’
and ‘a below’ seems nonsensical. From an institutional fetishized perspective, these claims are disregarded since the worker-owners have ownership rights. However, this permits the extension of the institutional focus and the simultaneous disqualifying of the complaints of the worker-owners.

Thus institutional democracy at Mondragón begins to resemble PRA discourse that sees its participants as according to Gujit and Shah (1988, cited in Cooke and Kothari, 2004:6) “homogenous, static and harmonious units where people share common interests and needs.”

An alternative set of possible relations is highlighted by another worker-owner indicating, ‘I am a member just like the manager; you have to dialogue with people, treat them like people. ... I had a supervisor who I couldn’t say no to about coming in on Saturday or Sunday; it was that he spoke to you like a person.” (Greenwood 1991:140). What this seems to illustrate is that the concern for individuals may not be hierarchy but rather being treated like a person. This simple cliché is however lost, in the quest for an institutional design solution. Because no institutional design can treat one ‘like a person’, because of the manner in which it applies itself uniformly to all.

The conclusion however, as has been stated before, is not the elimination of institutions. The inspiring supervisor described above most likely has its mirror image of the uninspiring and even destructive supervisor. Leaving the realm regulated by institutions may open up a world of greater personal interaction but it also is a world with greater variety and unpredictability. It is important to keep in mind that these are not mutually exclusive worlds either, since, “the interactions of daily life may be more important in shaping cooperation than public negotiations.” (Cleaver 2004:42) Returning to the case of the supervisor
mentioned above, although he works within the institutional framework of Mondragón his extra-institutional relations with his subordinates critically serve to interpret the institution. This shows again Unger’s point presented earlier regarding the need for transformative aspirations to set their lens on both institutions and social relations. Each serves to simultaneously construct the other.

**Conclusion**

This essay began with the ‘birth’ of Mondragón, and as a living entity it is critical that Mondragón continue to evolve and adapt lest it suffer from death. It has been shown that a focus on institutional design is insufficient to achieving progressive ideals. It is a flawed perspective because the institutional design of one entity may be reinterpreted quite differently if implemented elsewhere because of the role of social relations. Additionally however, an entity with a given institutional design may very likely grow out of it, so an extreme conservatism trying to ‘hold onto what works’ is also problematic.

By arguing for a better balance between the roles that institutions and social relations have in our understanding of how the world is shaped, I attempt to counterbalance the overwhelming tendency of focusing on getting the right institutional design by emphasizing the role of social relations to achieve this balance.

I do not however, wish to be interpreted as arguing the opposing extreme, against institutions and thereby presenting a romanticized image of social relations uninhibited by reified legalistic institutions. Social relations themselves may contain destructive power relations and be reified despite not being codified
into legalized institutions. This clarification is meant to address concerns of social relations that may also be referred to as ‘institutions’ in other literature – for the purposes of this essay it is helpful to consider them as lying on a spectrum from more reified to more open to reinterpretation. The absence of complete superiority of either legalistic institutions over social relations or of the inverse is precisely what requires a more nuanced exploration of the two. “A deepened democracy cannot end these tensions but it can moderate them.” (Unger 1998:257)

Although both Scott and Unger’s theories were central in the development of this argument, in their respective conclusions it appears that I align more closely with Unger. In the conclusion of Seeing Like the State, James Scott puts forth “a few rules of thumb that, if observed, could make development planning less prone to disaster” 1) Take small steps, 2) Favor reversibility 4) Plan on surprises 3) Plan on human inventiveness. (Scott 1998:345) Disappointingly, these suggestions continue to see the State as the central actor, or at least the existence of a central actor even if not the State. The focus is on the planning of the State. Unger’s conclusion aligns more closely “… progressives have often made the mistake of focusing their attention on political and economic proposals while leaving the fine texture of social life to take care of itself.” (Unger 1998:256)
BIBLIOGRAPHY


