

# Humanity at work

**MONDRAGON, a social  
innovation ecosystem  
case study**

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## **The Young Foundation**

Inequalities are widespread and complex and affect many areas of people's lives. The Young Foundation is a research and action institute with a track record of confronting these inequalities. We work across the UK and internationally to create insight and innovations which put people at the heart of social change.

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***We don't exist only to accumulate capital...  
we want to leave future generations something  
better than what we found.***



# Contents

Foreword	5
<b>Executive summary</b>	<b>6</b>
Key implications of our research with MONDRAGON	9
<b>1. Introduction</b>	<b>10</b>
About this case study	12
About MONDRAGON, our case study context	13
Inter-co-operation and intra-co-operation	14
Case study: how inter and intra-co-operation is operationalised at MONDRAGON	15
The national context: the Basque Country	16
<b>2. What is social innovation?</b>	<b>18</b>
Social innovation responds to social demands and values	20
Social innovation is context dependent	21
Social innovation is driven by specific social practices	22
MONDRAGON as social innovation	23
Responding to social needs	28
Innovation mission	25
MONDRAGON's social values	26
Auzolan	26
Sacrifice, generosity and solidarity	27
Self-responsibility: ownership and commitment	28
Democracy and participation	29
Learning by doing – enabling participation in innovation	31
Social values drive the development of the practices that feed innovation	34
What kind of innovation is MONDRAGON?	35
Case study: Solidarity, labour-sovereignty and its relationship to wealth creation	36
<b>3. MONDRAGON's social innovation journey</b>	<b>38</b>
Is MONDRAGON still innovative?	40
MONDRAGON's continuing social innovation journey	41
MONDRAGON's different stages of innovation	43
<b>4. MONDRAGON as a social innovation ecosystem case study</b>	<b>46</b>
The balance of negotiating context and changing the context	48
Mondragon's context changing and contribution	49
A complex model of a social innovation ecosystem	53
Leveraging capital to have broad benefits	56
<b>5. Conclusions and their implications: MONDRAGON</b>	<b>58</b>
References	62



## Foreword by Baroness Glenys Thornton

CEO The Young Foundation

At The Young Foundation our passion, and what drives us, is fighting inequality. We do this through research, work with communities and scaling up social innovations. Social innovation was another way of naming what both the Young Foundation and MONDRAGON have been doing since the mid 1950's.

It has been a great honour to have produced 'Humanity at Work', a reflection on how MONDRAGON, the world's largest worker-led Co-Operative represents a highly successful social innovation ecosystem. We are very grateful to MONDRAGON for allowing us to do this. Michael Young, our founder, would have been thrilled with this opportunity because he was a great admirer of MONDRAGON.

During the work we have brought together two of our key expertise sets: our work in social innovation and our work in ethnography to identify the importance of social value and practices in social innovation, often ignored. These are things which are "every day" and look normal in MONDRAGON but to an international audience are markedly egalitarian: the relevance of values in strategic decisions, the principles of democracy and internal solidarity, the mechanisms and instruments of inter co-operation, the participation in innovative processes.

This case study shows that is possible to endogenously build more balanced, fair, inclusive and sustainable development models.

Working with MONDRAGON has been inspiring, exciting and has filled us with hope that this model can play a key role in building a better world and fighting inequality. It's time to seize this moment and look to building on this roadmap for social change across the UK and beyond.



# **Executive summary**



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## In a shifting global economic context, how are we going to guarantee high quality employment and competitive business that works with communities to create social value and positive outcomes for all?

That is a question that the growing field of social innovation – new, socially driven solutions for old problems – is attempting to learn about and put into practice.

MONDRAGON offers us a case study which we believe helps us better conceptualise the potential for social innovators to **come together in ecosystems and to consider how to create inclusive yet successful economic strategies. In what follows we share our key findings and considerations from the research.**

### What is MONDRAGON?

MONDRAGON is one of the world's largest industrial co-operative association. The organisation was founded in 1956 to provide work and employment to local people at a time of great societal economic need. It has seen significant growth: composed of more than 260 different companies and subsidiaries, with over 75,000 workers in 35 countries, and annual revenues of over €12 billion, this constellation of worker-led ventures describes itself as **'humanity at work'**.

### Driving forward social impact through shared values

**Social values are an intrinsic part of the MONDRAGON ecosystem.** It was set up to take an educational and humanistic, while venture-led, approach to social transformation. This approach may have enabled its growth and, leveraged through the full resources of the co-operative and shared ownership principles, is also likely to regulate and maintain it.

### Organisations working together to achieve social impact

Rather than being conceived as a singular co-operative group, MONDRAGON is best understood as **a series of diverse organisations sharing common values<sup>1</sup> and working together to achieve success and social impact.** Social values inform and regulate everyday behaviour and core working practices. They inform strategy and maintain consistency.

### Social in means and ends

**Social innovation focuses on those innovative practices to create change that are social in both means and ends, which is true of MONDRAGON.** MONDRAGON's **shared values translate into working practices.** They are operational: as a body of organisations, it has significant democratic systems and voting parity privileges for members, such as 'one member, one vote'. Shared ownership is another operational aspect of its values.

This ongoing commitment to social benefits and an egalitarian co-operative working model – its operationalisation of values – have addressed societal 'need' in ways that are not just social in their ends but also in their means, making it socially innovative.

### Seeing MONDRAGON as a social innovation ecosystem

**What makes MONDRAGON a social innovation ecosystem, not just a social innovation, is its system of intra- and**

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<sup>1</sup> It is important to note that this research explores the values of MONDRAGON as experienced, expressed and practiced by research participants. These are distinct from, but overlap with, MONDRAGON's official corporate values (co-operation, participation, social responsibility and innovation).

**inter- co-operation between each of these co-operatives and organisations, and non-competition between co-operatives in its family. This means they don't only co-exist but also collaborate together.** Co-operating for common good to achieve broader benefits appears to be a key part of the model.

### **Success and competition is considered the key way to leverage social impact**

A socially driven system of co-operation tied to good and often disruptive business ideas have combined to create a successful group of businesses which importantly look to build shared social benefits through their economic performance. Economic performance and wealth distribution is a key aspect of the model and the way it achieves its social aims. This performance, aligned with and leveraged by the profit sharing model of the co-operatives, means that there is potentially greater sustainability and competitiveness as profits are redistributed and member mobilisation to work is high.

### **How do we think this means that MONDRAGON is different?**

MONDRAGON is particularly remarkable because often social innovation ecosystems are seen to rely heavily on external factors. However, as we'll go on to explore in this case study MONDRAGON **has a history of internal development of complementary institutions or social innovations which co-operate to enable the wider mission.**

It is a clear example of a social innovation ecosystem which has not only **grown endogenously** but is also **self-sustaining**, having developed a range of institutions to support the existing co-operatives. **This case study suggests that, through the principles of labour sovereignty (which is MONDRAGON's credo), MONDRAGON has created its own complementary enabling institutions, where they were needed to further its development, such as banks to provide capital or educational institutions to provide talent for its work.**

### **People are our greatest asset**

As the principle of labour sovereignty suggests, the **ecosystem has been mobilised by ideas about solidarity between people, shared values and a collective drive to improve life chances and equality.**

The growth MONDRAGON has created and the success it has had is based on the principle of labour sovereignty over capital. People are its greatest asset and its most important aspect. This means it has facilitated broad participation and dedicated resources to training and education to enable that participation.

**People feel a strong sense of shared responsibility to create social sustainability by generating well-distributed wealth with broad social benefits. Their commitment and drive is key to understanding MONDRAGON.**

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**Social innovation is rarely formalised but it is always socially driven and often values-based. However, it is rare to see such an example of a comprehensive socially driven ecosystem where the belief in people as society's greatest asset has enabled socially sustainable tools for people to live more egalitarian lives.**

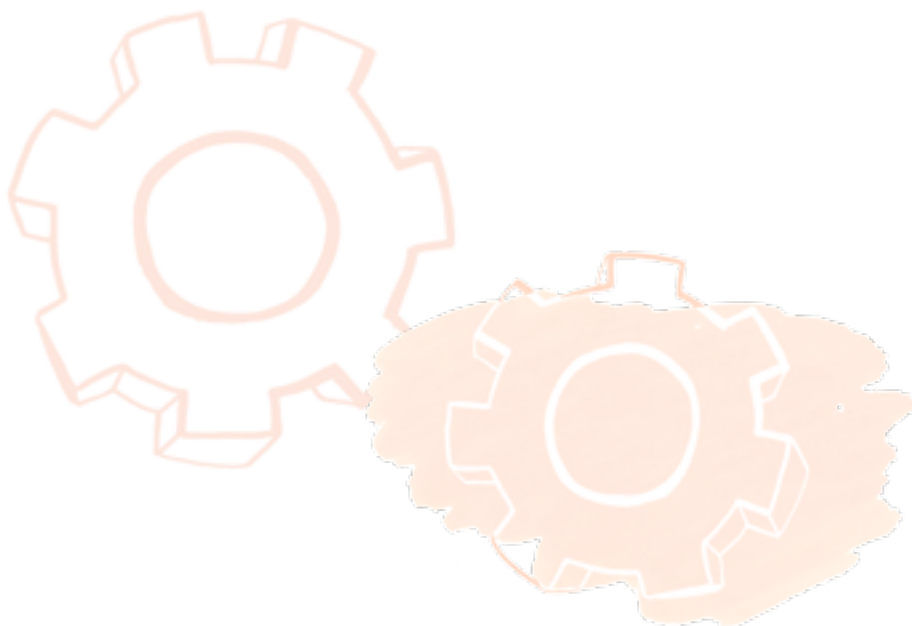
## Key implications of our research with MONDRAGON

We believe the MONDRAGON example does not just offer us a different way of creating socioeconomic transformation, but helps us understand how broader attempts to distribute wealth or create socioeconomic benefits might function sustainably and successfully.

This insight has the potential to move us beyond a focus on policy makers and external players in ecosystems and **refocus on people and values: how innovations can themselves encourage participation and use capacities based on values such as inter-co-operation, labour sovereignty and solidarity in order to build a system of change that enables the whole.**

We hope this case study will change the nature of conversations about how inclusive economies, those which encourage participation and broad egalitarian benefit, do not have to sacrifice success to be impactful. Below we make five key recommendations based on our learning from this extraordinary case study.

- Businesses can place social benefit as a core element of their proposition without compromising their success and competitiveness in the market. In fact, social benefit is intrinsic to competitiveness.
- Rather than just relying on the 'solo entrepreneur,' people can be brought together to create sustainable positive change at scale if strong and shared values about common good are embedded in socioeconomic and investment practice.
- People and communities experiencing socioeconomic inequalities are likely to find their most effective transformative solutions by working together to co-create new ideas which focus on distributing wealth more fairly.
- Strong shared values can be powerful mobilisers of fair action, especially when embedded in more equal socioeconomic and organisational practices.
- Wealth needs to be distributed by taxation but more equal pay ratios also lead to wealth redistribution. **MONDRAGON therefore presents an alternative approach to fighting the structural causes of inequality.**



CHAPTER 1

# Introduction

MONDRAGON<sup>2</sup> is the world's largest network of worker-owned co-operatives and is **"arguably the most iconic and successful example of co-operative enterprise anywhere in the world."**<sup>3</sup> It has also been described as one of the most important sociological phenomena of the 20th century.<sup>4</sup> Remarkably MONDRAGON was founded in 1956 by a parish priest, in a context of severe need in the Basque town of Mondragón, to create employment for local people.

As we will go on to see, it is this founding which makes it a social innovation. Today, it has grown into a constellation of worker-owned ventures, with more than 260 different companies and subsidiaries, 75,000 workers in 35 countries and annual revenues of over €12 billion. It is a heterogeneous and complex business group with co-operatives operating at varying scales within a range of different sectors. It has a continuing commitment to its founding aims, which continue to be socially innovative.

Prior to our work, MONDRAGON has been studied as a uniquely successful industrial co-operative group with a recognised commitment to internal democracy and local territorial development. Previous research on the corporation, from a range of disciplines, has taken a comparative perspective, identifying similarities and differences with respect to traditional business models.

### **MONDRAGON as a social innovation ecosystem**

In this case study we look at the MONDRAGON case in a new way: **as a social innovation ecosystem**. Despite its history of highly effective social impact, MONDRAGON has seldom been considered from the perspective of social innovation.

**'Social innovation'** is a relatively new field and is often a term that innovators themselves do not recognise or connect with. Those who are developing new ways of tackling complex social problems are often preoccupied with the task at hand and less interested in labelling what they do.

**Social innovation refers to the process, relationships and products engendered in creating unique solutions to entrenched or emerging social need or problems.**

In this case study, we go further than establishing the grounds for it to be considered a social innovation: we attempt to review it as a social innovation *ecosystem*. An ecosystem is an ecological term which describes a complex network of interdependent organisms that enable, maintain, and can strengthen one another through their interaction. It best describes the ways organisms interact with each other and with their environment.

There is growing interest in social innovation ecosystems because of the potential they offer. Understanding a social innovation ecosystem involves looking at social innovations acting together or working at scale. We hope that applying this lens will help people understand more about how MONDRAGON is so effective, as well as how social innovation ecosystems might be understood.

We do this because MONDRAGON has not only consistently applied its models to new contexts in innovative ways. It has also adapted those models over the years in innovative ways in order to build a kind of **sustainable 'constellation'** based approach which we believe makes it possible to see it as an ecosystem.

2 In line with company policy, we use MONDRAGON in capital letters to refer to the corporation throughout this report. This differentiates it from Mondragón, the town from which it takes its name and where many of the co-operatives are still based.

3 Morgan, K. (2016). Collective entrepreneurship: the Basque model of innovation. *European Planning Studies*, 24 (8), p. 1544.

4 Ibid.

## About this case study

**This case study contributes to the growing body of research around social innovations, and in particular, social innovation ecosystems.** This is a new lens with which to study MONDRAGON and we think provides a contribution to social innovation research.

The case study is informed by a piece of research carried out in the Basque Country primarily with MONDRAGON members by The Young Foundation during 2016 and early 2017. This created primary research evidence, in the form of ethnographically-focused research and interviews<sup>5</sup> carried out with MONDRAGON's co-operative members, workers, students and people close to it, which attempts to understand their viewpoints and perspectives.<sup>6</sup> We also held deliberation sessions with people working in different co-operatives to explain and tease out detail, or help validate or explore findings and ideas. In addition, much of the information in this case study that provides factual detail about the co-operatives has been explained by co-operative members, workers and others, to us<sup>7</sup>. It is also complemented by secondary socioeconomic data.

To this evidence, we have applied a new lens to MONDRAGON, that of social innovation. Here we have been able to draw both on The Young Foundation's long history of expertise in the field of social innovation as well as our ethnographic work in understanding communities, social dynamics and values in order to bring fresh insight and perspective, allowing us to understand *how* MONDRAGON functions as a social innovation ecosystem.

We are excited by the possibilities this gives us to develop our own thinking about broader social change and thank MONDRAGON for

the opportunity to learn from its protagonists. However, we are keen to note that because the research is a case study, it is not exhaustive. Nor is it representative of the viewpoints or experience of MONDRAGON co-operatives or members. It represents the viewpoints of The Young Foundation and attempts to help people start to shape an idea of MONDRAGON as an endogenously created social innovation ecosystem of great scale. We hope that it will also help readers draw conclusions and implications about how collectives or ecosystems might mobilise around values such as solidarity or common values, or how collective tools, such as those of social movements, or co-operatives' shared ownership models, for example, might be applied to create greater equality.

Its themes would certainly merit further and deeper exploration, both globally and in different co-operatives and organisations which represent part of the MONDRAGON constellation. We also believe that MONDRAGON could be looked at as a social movement and would ideally broaden this research into different co-operatives and areas. We also intend to further deepen and publish this research using our full data set at a further point.

In particular, it is key to note that although MONDRAGON is an international corporation, this case study presently focuses only on the input and experiences of people living in the Basque Country. We have also been restricted in our reference to other co-operative models or broader societal or cultural models of co-operation. **However, by taking a case study approach in this report, we hope that MONDRAGON is viewed in terms of what it offers, rather than how it may compare to other models or places. We look at how it is a successful model we could learn from, not the extent to which it is or where its faults may lie.**

**This case study purposefully structures itself along the key questions and critiques people working in social innovation have about the world around them. We go onto explore key questions in social innovation to the MONDRAGON case including whether it is a social innovation and what kind it is, if, given its long-running history, it continues to be socially innovative, and whether it can be considered as an ecosystem.**

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5 The bulk of the interviews were carried out by Spanish-speaking researchers and transcripts were subsequently translated into English, while workshops were bilingual.

6 Ethnographic work focuses on the viewpoints, beliefs and social contexts of actors in a process, as well as research observations about their actions. As a result, we emphasised throughout the interview process that we were interested in hearing people's stories, anecdotes and experiences of MONDRAGON, not just their factual understanding of it.

7 Where this information is not referenced or in quotes it should also be considered primary evidence.

## About MONDRAGON, our case study context

MONDRAGON is a multinational network of worker-owned co-operative enterprises founded in the Basque Country in 1956 on the principle of “labour sovereignty”.

Today it is the largest industrial workers’ co-operative group in the world, the largest business group in the Basque Country, and the tenth largest in Spain.<sup>8</sup> Its headquarters and a significant part of its operations remain in the Basque Country.

### **MONDRAGON is a distinct case of co-operativism**

MONDRAGON is not a typical co-operative and has a distinctive operating model. It is a co-operative ‘complex’ which includes a suite of individual and sovereign co-operatives which make different products and serve different functions.

MONDRAGON employs over 74,000 people worldwide and has achieved annual revenues of over €12 billion (in 2015).<sup>9</sup>

It includes 261 companies made up of 101 co-operatives, 128 subsidiaries and 32 other entities spanning five continents. Each of these organisations have autonomy and independence within the strategic framework agreed by the overarching MONDRAGON Congress, which is made up of 650 members from across the co-operatives.<sup>10</sup> Each has the capacity to make their own decisions internally. MONDRAGON is worker-led and owned, with 81% of all of its employees being members,<sup>11</sup> and it also employs non-members.

The majority of the employment provided by MONDRAGON is concentrated in the Basque Country, where 44% of their workers are based (with 40% in other regions of Spain and 16% in international subsidiaries). Figures show that MONDRAGON is the fourth largest employer in Spain as a whole, employing 62,800 people there in 2013/14.<sup>12</sup>



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8 MONDRAGON About Us (English): [www.mondragon-corporation.com/eng/about-us/presence-worldwide/](http://www.mondragon-corporation.com/eng/about-us/presence-worldwide/)

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9 MONDRAGON (2016). About Us – Economic and Financial Indicators (English): [www.mondragon-corporation.com/eng/about-us/economic-and-financial-indicators/highlights/](http://www.mondragon-corporation.com/eng/about-us/economic-and-financial-indicators/highlights/)

10 MONDRAGON (2016). Humanity at Work. Available at: [www.mondragon-corporation.com/wp-content/uploads/MONDRAGON-ING.pdf](http://www.mondragon-corporation.com/wp-content/uploads/MONDRAGON-ING.pdf)

11 This was the case in 2015. MONDRAGON (2016). About us – Economic and Financial Indicators (English).

12 TULankide (2014) RSC.

## Inter-co-operation and intra-co-operation

Organisationally, MONDRAGON is divided into four areas: finance, industry, distribution and knowledge.<sup>13</sup>

The individual businesses within the group operate in a diverse range of sectors and industries, from the production and distribution of consumer goods, to the manufacture of industrial components; construction as well as beyond the industrial sector, into retail, research activities, financial services, and education and healthcare services.<sup>14</sup>

All MONDRAGON's business operations are underpinned by its official corporate values:

- co-operation
- participation
- social responsibility
- innovation<sup>15</sup>

Intra-co-operation is a significant feature of MONDRAGON's group. Intra-co-operation refers to co-operation and solidarity among the individual members of a given co-operative. One key example of this is described in the list of core MONDRAGON principles as 'payment solidarity'. This means fair pay for all work. However it is worth noting that although we refer to 'pay' here for clarity, MONDRAGON does not consider this a salary but rather as a payment made to members in return for their services as an advance on the co-operative profits in the following month – what is referred to in Spanish as an *anticipo*.

MONDRAGON is also crucially an example of inter-co-operation. Importantly, **co-operatives take a non-competitive approach internally and provide services to other co-operatives in the group as well as externally**. This creates complementarity and diversity and, as we go on to discuss, this means that it is not just a set of businesses united under the MONDRAGON umbrella but instead a system of interdependent and mutually-enabling institutions.

MONDRAGON is also concerned with external co-operation or social benefit. MONDRAGON has a distinct commitment to its environment. Its headquarters are based in the Basque Country. The corporation's commitment and contribution to the Basque Country has been described as "the most powerful constituent of the Mondragon intentional economy."<sup>16</sup>

Co-operatives within MONDRAGON have a policy to aim to contribute to their respective local areas in three key ways:

- Through the provision of employment and sustained economic development;
- By investing in knowledge and education in order to help develop skills;
- By holding to principles of working that encourage egalitarianism and improvements in quality of life.

***It's clear that in the whole of Spain, the area with the lowest unemployment is this one. And the area where wealth is most evenly distributed is this one. That is, there aren't very rich people or very poor people here. There is a middle class.***

Ana, 45, co-operative member

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> Gibson-Graham, J. K. (2003), Enabling Ethical Economies: Cooperativism and Class. *Critical Sociology*. 29 (2), p.139.



## Case study: how inter and intra-co-operation is operationalised at MONDRAGON

**Solidarity within MONDRAGON is expressed within co-operatives (intra-co-operation), among co-operatives (inter-co-operation) and externally (social transformation).** All these concepts are manifested differently in different co-operatives and different economic situations but these relationships are key to sustaining MONDRAGON as an ecosystem.

Intra-co-operation refers to co-operation and solidarity among the individual members of a given co-operative, for example, as described, payment solidarity.

Another aspect of intra-co-operation is the significant commitment made by MONDRAGON to an equitable salary ratio among the employees. Although this has become more flexible in recent years in order to retain and attract 'talented individuals', the pay scale tries to **balance internal equality with external competitiveness**. This social dimension of solidarity emphasises the wellbeing of the individual workers within the ecosystem, helping to ensure the wellbeing of the wider ecosystem itself.

Inter-co-operation is the expression of solidarity between co-operatives of the group and is often demonstrated in times of economic difficulty. For example, all member co-operatives contribute to a collective solidarity fund (see below), which is used to compensate losses experienced by other members. When difficulties arise, relocation within MONDRAGON is also a key way in which inter-co-operative solidarity is expressed. In the case of a recent company closure, for example, 1200 workers were relocated in less than 24 months, successfully avoiding any redundancies. Similarly, in cases of redundancy the co-operatives make successful efforts to relocate staff to other co-operatives

and organisations in the organisation. Inter-co-operation is also systematically demonstrated through the *joint* reinvestment of profits into employment creation and the corporation-wide funds for education and local/regional socioeconomic development.

MONDRAGON operates numerous 'solidarity funds', financial expressions of inter-co-operative solidarity and the commitment to the future economic sustainability and development of the co-operative group and its components. The most recent Congress of the Corporation, held in summer 2016, proposed a plan to design a new model for these funds, as part of the ongoing learning and adaptation of the co-operatives and their contribution to the local area. A Cohesion and Development Fund (FCD) and a Corporate Expansion Fund (FEC) were both announced. The objectives of these funds include: to strengthen the competitiveness of the co-operatives and their business projects, to facilitate expansion and growth in the global market, to regulate/lessen the impact of economic cycles and facilitate more equal payment across co-operatives and to encourage solidarity with society and future generations through, for example. This financial solidarity across the co-operative group arguably helps to maintain the health of the overall ecosystem.

For MONDRAGON, external solidarity is not primarily considered in terms of collaboration or co-operation with businesses outside the group, but with the goals of job creation and social transformation. The corporation offers financial support for community initiatives and reinvests a proportion of its profits in to local funds. Thus through its commitment to solidarity MONDRAGON aims to create the environment it needs, both internally and externally, to flourish.

## The national context: the Basque Country

MONDRAGON has a complex socioeconomic relationship with its surrounding environment, expressed through co-operativism and economic as well as social benefit. The Basque Country has undergone significant socioeconomic development in the past 50 years whilst retaining its industrial character. Research participants commonly stated that MONDRAGON has been a key institution supporting this change. The Basque Country is the name most commonly used to refer to the area and the people located on the shores of the Bay of Biscay and on the two sides of the Western Pyrenees that separate Spain and France. At present, most of the Basque people live in the Autonomous Community of the Basque Country. It is an autonomous region of Spain and has the official status of “nationality” under the Spanish Constitution of 1978. The Basque Country is bordered by the Cantabrian Sea in the North and has three distinct areas which are defined by two parallel ranges of Basque mountains.

There are just over two million inhabitants of the Autonomous Community of the Basque Country, almost half of whom live in the Greater Bilbao metropolitan area. Around 30% of the population was born outside the Basque Country. In the twentieth century, there was significant migration to the region, in particular from Galicia or Castile and León. In recent years, however, immigration to the Basque Country has primarily been from South America.

A majority of the Basque population identify as Roman Catholic, although it is one of the most secular regions of Spain.<sup>17</sup>

The Basque Country has two co-official languages: Spanish and Basque. The sociolinguistic status of the Basque language has been seen to decline over time, particularly in the twentieth century because of national policies implemented by different Spanish political regimes and the lack of Basque language schooling. Since the implementation of the Statute of Autonomy of the Basque Country in 1982, however, this trend has been gradually reversed thanks to the introduction of ‘ikastolak’, Basque medium schools.<sup>18</sup>

In 2006, a survey of all Basque provinces showed that 30.1% of people over the age of sixteen were fluent in Basque, 18.3% were passive speakers and 51.5% did not speak the language at all. The province of Gipuzkoa, where Mondragón is situated, had the highest percentage of fluent Basque speakers, at 49.1%.<sup>19</sup>

Founded in the Basque Country, MONDRAGON has strong sociocultural roots in the region. The organisation takes its name from the local town of *Mondragón in the Gipuzkoa* province where it was established and where the MONDRAGON headquarters are still located to this day.

MONDRAGON has been said to have made a distinctive contribution to its environment, both in evidencing its impact and in broader perceptions. The epicentre of these benefits is often perceived to be the town of *Mondragón*. The idea of innovation stemming from a critical moment of economic necessity, with social aims and ends that benefits more members of society than one individual or small group, is at the heart of the MONDRAGON story, as is the extent to which members feel it makes a continuing commitment to the Basque Country and local society.

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17 Nafría, I (2015) Interactivo: Creencias y prácticas religiosas en España. La Vanguardia. Available at: [www.lavanguardia.com/vangdata/20150402/54429657154/interactivo-creencias-y-practicas-religiosas-en-espana.html](http://www.lavanguardia.com/vangdata/20150402/54429657154/interactivo-creencias-y-practicas-religiosas-en-espana.html)

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18 Cenoz, J. (2009). *Towards Multilingual Education: Basque Educational Research from an International Perspective*. Bilingual education and bilingualism, vol. 72.

19 IV. *Inkesta Soziolinguistikoa Gobierno Vasco*, Servicio Central de Publicaciones del Gobierno Vasco 2008.

***It has been very important for the Basque Country and the development of this whole area, as it has created jobs and been able to sustain them. MONDRAGON began with the imagination of converting a deprived area, transforming it into an innovative place with opportunities for its inhabitants, which has resulted in an increase in their quality of life.***

David, 54, co-operative member



CHAPTER 2

# What is social innovation?

In what follows we begin to consider what social innovations are and if MONDRAGON can be considered socially innovative.

A social innovation is usually considered a new approach to tackling intractable or entrenched, or emergent, social issues. People will often attempt to take a social innovation approach when they want to tackle problems that may have proved resistant to conventional solutions.

There are three important dimensions to social innovation:

- A social innovation is an articulation of expressed or latent 'social demands' and 'social values'
- Whether or not something is a social innovation is dependent upon the context in which it has developed
- A social innovation is frequently driven by specific social practices that emerge from those social values (e.g. collaboration and co-operation, or democratic participation)



# Social innovation responds to social demands and values

Social innovations often emerge as expressions of the social values of the innovators involved, and as a result of social demands<sup>20</sup> expressed by a wider community.

That is to say that a particular set of values shared by communities can create a demand for change when there is tension between those values and lived experience.

As such social demand is an expressed or latent imperative to make change in response to a failure of the market or existing institutions. These demands are frequently drawn out of inequalities, vulnerability or uneven power dynamics.

Social values and demands come to change behaviours, or social practices, and govern the ways in which people choose to take action. This understanding of how innovation manifests helps us to define social innovation as:



## Social demand and social innovation

The social demand approach understands social innovation as ideas that respond to expressed or latent needs within society that are traditionally not addressed by the market or existing institutions and are frequently drawn out of inequalities, vulnerability or uneven power dynamics.

As such we define social innovation as:

*“new approaches to addressing social needs. They are social in their means and in their ends. They engage and mobilise the beneficiaries and help to transform social relations by improving beneficiaries’ access to power and resources.”<sup>21</sup>*

20 Hubert, A. (2010). Empowering people, driving change: Social innovation in the European Union. *Bureau of European Policy Advisors (BEPA)*. Available online: [http://ec.europa.eu/bepa/pdf/publications\\_pdf/social\\_innovation.pdf](http://ec.europa.eu/bepa/pdf/publications_pdf/social_innovation.pdf).

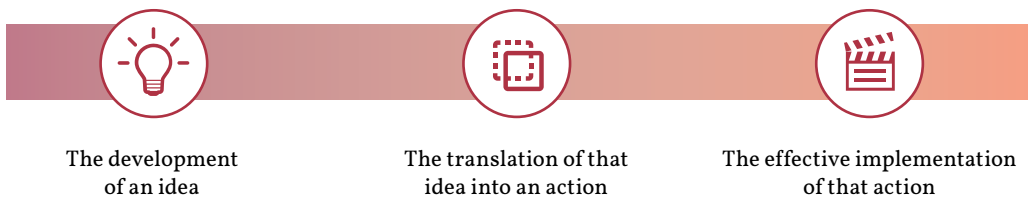
21 TEPSIE (2014), ‘Social Innovation Theory and Research: A Summary of the Findings from TEPSIE.’ A deliverable of the project: “The theoretical, empirical and policy foundations for building social innovation in Europe” (TEPSIE), European Commission – 7th Framework Programme, Brussels: European Commission, DG Research.

## Social innovation is context dependent

Importantly, social innovation is not just about a new idea but importantly concerned with making that idea fit its context in a way which creates socially positive outcomes. Social innovation is not only context dependent but context specific.

Social innovation emerges from its social, political and economic context and must work with its context in order to build an appropriate and sustainable solution that again benefits the context of society and need around it.<sup>22</sup>

It requires:



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<sup>22</sup> Hochgerner, J. (2011). The analysis of social innovations as social practice. Bridges, 30.

## Social innovation is driven by specific social practices

Whilst social innovation must often adapt to context in order to survive, equally, social innovations and innovators can exert pressure on contexts to create change.

In this sense the process of innovation is often a negotiation between the new and the old:

*“social innovations **have to assert themselves against other social practices**... So they assert themselves in competition with other existing approaches and are also modified in the course of this process of assertion.”<sup>23</sup>*

In this way social practices lie at the root of social innovation because new approaches cannot arise without adaptation of the ways in which people behave and interact.

Here, models that might exist elsewhere take on new characteristics when they are trialled in new arenas.

New models therefore frequently need complementary forms of innovation to sustain or progress them: new business models; new capacities; new management processes; new ways to make the innovation fit existing social values or current social needs. For example, as we will go on to see, the Lagun Aro, MONDRAGON's social security system, was established in 1959 as a form of social security for co-operative members, who were classed as self-employed by the local government and therefore not eligible for state welfare. It provides social assurance, health care and pension cover to co-operative members. Lagun Aro is a co-operative and has the same functions and democratic processes as other co-operatives in the group.

### More than an idea

Social innovation through the eyes of Izaskun, 22, a student at Mondragon Team Academy.

*A lot of the time we confuse creativity with innovation. There are lots of projects which are creative but ultimately, innovation is something different, something good and which contributes some sort of value which hasn't been done before. I mean, it's able to be integrated into the market, it has to be sustainable as well. That people demand it and you can offer them it and do business with it. Not business in the sense of exploiting or taking advantage, but that it's something you can scale up and improve, which is in balance with the rest of society. That's innovation.*

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23 (Translation found in: Hochgerner, J. (2011). The analysis of social innovations as social practice. Bridges, 30.) Franz, Hans-Werner. 2010. 'Qualitäts-Management als soziale Innovation'. In Soziale Innovation. Auf dem Weg zu einem postindustriellen Innovationsparadigma, Jürgen Howaldt and Heike Jacobsen (eds.), 335–354. Wiesbaden: VS Verlag. p.338.



## MONDRAGON as social innovation

So how does this apply to MONDRAGON? Social innovation is a useful lens for considering MONDRAGON across its history because of the way that it has consistently developed new models in order to balance social demands, organisational values and the core business aims of the organisation.

It is also a response to social needs and is driven by social values, key areas of social innovation. One particularly important reason for exploring working practices and understanding key narrative concepts in our treatment of MONDRAGON relates to an area of social innovation rarely explored: its social aims, impacts, values and the new relationships it can create. Social innovation seeks to effect positive change at a human and social level or to bring about shared consensus. It also seeks to change access to power and resources.

As we will go onto see, MONDRAGON represents a good example of people working together in egalitarian relationships and with a common consensus. In interviews, MONDRAGON members emphasised the importance of being part of a wider whole; that MONDRAGON is not just a business, it is 'an experience'.



## Responding to social needs

MONDRAGON began as an innovative response to an intense and difficult socioeconomic situation. It is viewed to have begun as an endogenous response to the harsh conditions of poverty and unemployment facing the Basque Country after the Spanish Civil War.

Poor socioeconomic circumstances were widely faced in the region and the lack of a sufficient or widespread response by other agencies, coupled with strong shared values, appears to have been integral to its founding and therefore could be considered a catalyst for innovative practice<sup>24</sup>, as this report will go on to explore.

In the 1950s, at the time of MONDRAGON's establishment, the Basque Country was nearing bankruptcy.<sup>25</sup> Socially and economically, the region had been highly prosperous at the turn of the twentieth century but the impacts of the Spanish Civil War had created difficult socioeconomic circumstances for all. Poverty and unemployment were endemic until the 1950s<sup>26</sup> and “many basic goods such as wheat, cooking oil, and coal were rationed. Indigence and tuberculosis were serious problems”<sup>27</sup> which the public and private sectors were unable to resolve.<sup>28</sup> In the post-civil war period, there was well-documented social<sup>29</sup>, political<sup>30</sup> and economic uncertainty<sup>31</sup>

In the post-war circumstances of the 1950s, MONDRAGON was a proactive response to the social and economic needs of the local community:

**“It began from asking, “what are the needs that exist in this community” and thinking about how the community could respond to these needs through the co-operative? All this phase, the whole way of doing and thinking and understanding the company and the role of the co-operative enterprise in the territory in which is located – for me that is the full social experience and social innovation.”**  
Garbiñe, 36

Father José María Arizmendiarieta, a Catholic priest, was a leading figure in the founding and development of MONDRAGON. He was keenly interested in sociology and had planned to study it at university in the early 1940's, but his bishop sent him to the town of Mondragón instead.<sup>32</sup> Faced with the socioeconomic circumstances of the local population, described to us by interviewees as ‘widespread hunger and need’, and the lack of support from other agencies in addressing these issues, Arizmendiarieta set out to address the immediate local need in the community:<sup>33</sup>

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24 Campbell, A., C. Keen, G. Norman and R. Oakeshott (1977). *Worker-Owners: The Mondragon Achievement*. Anglo-German Foundation for the Study of Industrial Society. London.

25 Porter, M., C. Ketels, and J. Valdaliso. (2013). The Basque Country: Strategy for Economic Development. *Harvard Business School Case 713-474*. (Revised June 2016.)

26 Lessem R., and Schieffer A. (2016). *Integral Economics: Releasing the Economic Genius of Your Society*. Florida: CRC Press.

27 Clamp, C. The Evolution of Management in the Mondragon Cooperatives. Southern New Hampshire University (available from <http://community-wealth.org/sites/clone.community-wealth.org/files/downloads/paper-clamp.pdf>)

28 Molina, F. (2014). Lies of Our Fathers: Memory and Politics in the Basque Country Under the Franco Dictatorship, 1936–38. *Journal of Contemporary History*. 49 (2), p. 299.

29 Pérez-Agote, A. (2006). *The Social Roots of Basque Nationalism*. Reno, NV: University of Nevada Press.

30 Toticaguena, G. (2004). *Identity, Culture and Politics in the Basque Diaspora*. Reno, NV: University of Nevada Press.

31 Heywood, P. (2013). *Politics and Policy in Democratic Spain: No Longer Different?* London: Routledge.

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32 Foote Whyte, W. & K. King Whyte (1988). *Making Mondragon: The Growth and Dynamics of the Worker Cooperative Complex*. Ithaca, NY: Cornell University Press. p. 248.

33 Ibid.

## Innovation mission

Arizmendiarieta's initial innovative vision was one of contributing to the local community and economy through the provision of technical education and training to young people. **As a result, in 1943, he founded a technical college with two key value-led principles:**

- **to provide technical education to local young people**
- **to instil into them a humanistic, participatory vision based on values of equity and justice**

The technical college, or *Escuela Profesional*, initially provided vocational training for twenty young people, underpinned by the belief that investment in education would repay itself.

This stemmed from the idea that although there were few economic resources, the area did have people willing to work together. Here, people could use their own labour to participate with others to create socioeconomic change with extensive benefits.<sup>34</sup> In this vision, **vocational education would become “simultaneously... a catalyst for self-realisation and societal betterment”<sup>35</sup>.**

MONDRAGON as a ‘solution’ was developed in response to these socioeconomic needs to create a deeply-rooted organisational culture today that still appears to value the social drivers of growth and sustainability which were part of the founders’ visions, as well as shared social and organisational values which help operationalise working practices. These are values we have identified through the research. They are implicit and intrinsic, and key to a discussion of MONDRAGON. They also appear to underpin its social innovation mission<sup>36</sup>:

- Auzolan and the common good
- Sacrifice, generosity and solidarity
- Self-responsibility
- Democracy and participation
- Learning by doing

In the next section we go on to explain each value based on qualitative interviews with MONDRAGON members who helped identify them. We believe these values and their operationalisation via practices are key to understanding the type of social innovation MONDRAGON engages in, which we go on to explain.

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<sup>34</sup> Although it has not been the focus of this study, in this way MONDRAGON has some similarities with a particular type of heavily institutionalised social movement or value-based group action.

<sup>35</sup> Schieffer, A. and R. Lessem (2014). *Integral Development: Realising the Transformative Potential of Individuals, Organisations and Societies*. London: Routledge, p. 367.

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<sup>36</sup> It is important to understand that MONDRAGON has official shared values and principles which are shared in the introduction and which are different to those we share here.

## MONDRAGON's social values

One of our key questions, in applying an ecosystem case study approach, is to consider **how people who work together at MONDRAGON 'make it work' and why they support, drive or commit to its social values which steer its commitments and innovative practices.** Often, these consistent commitments are made in the context of societal change or challenge, as we will go on to see. So how does this ecosystem socially sustain itself and maintain shared ways of doing things – especially ways considered to be so unusual when compared with other business models? Below we identify core narratives which describe shared social values people have, which emerged from research as being crucial to underpinning MONDRAGON's working practices. Shared values are also central to the operation of social innovation and co-operativism.<sup>57</sup>

For a system such as MONDRAGON, the operation of these values and concepts – regulated or enabled by the co-operative model – could be argued to help define sustainability.

One particularly important reason for understanding key narrative concepts in a social innovation case study relates to an area of social innovation rarely explored: its social aims, impacts and the new relationships it can create. Social innovation seeks to effect positive change at a human and social level or to bring about shared consensus. It also seeks to change access to power and resources.

## Auzolan

Auzolan is a concept which was discussed by people who took part in the interviews as being key to the development of the MONDRAGON cooperatives. *Auzolan* in English means *community work* and can be used to explain the commitment of members and workers to their co-operative:

*"It's the idea of a community working together. Working together as a community to build something for the community. For example in neighbourhoods where there were no roads, people came together as a community and built them."*

This is the expression of inter co-operative and intra co-operative forms of solidarity.

Unai, 41, sees *auzolan* as fundamental to the story of MONDRAGON's development. He describes it as *"the idea of joining forces to get ahead in a hostile environment."* Importantly, it is seen as the initial 'seed' which contributed to the growth and flourishing of the co-operative. Begoña, 36, who works in local government says that:

*"even before we had the co-operatives, there was a strong concept of auzolan. Joining up with your neighbours and other people and all working together to achieve a goal. So the tradition of auzolan... maybe that characteristic, or that territorial character and the philosophy which was present in this area contributed."*

Common good also represents the self-sufficiency of the community and its ability to achieve things together without other support. Interestingly, ***auzolan* is a community-led practice, referring to the ability of the community not only to work together but to achieve things.** People think that at the time MONDRAGON was created, the lack of existing institutional structures meant that citizens had to take a more active role in improving their own communities. Community-led social practices such as *auzolan* are perceived by people to be most active when institutional provision is lacking.

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<sup>57</sup> Mayo, E. (2016). *Values: How to Bring Values to Life in your Business*. Sheffield: Greenleaf Publishing Ltd.

## Sacrifice, generosity and solidarity

Sacrifice is a concept used to explain what is involved or incurred in community work. Broadly the principle of co-operation has been elsewhere identified as occurring when an individual incurs a cost to provide a benefit for another person or people<sup>38</sup> and this appears to be true of MONDRAGON in terms of how frequently the term and concept is used and how it is developed.

Sacrifice expresses what happens through *aulolan*. It is the collective giving-up of something for the greater good. Here it is an organisational commitment to guaranteeing long-term survival and sustainability:

*"Sacrifice is for the future, for something bigger you want to achieve, for a greater good, then that's it, you have to do it. You have to do it."* Jose, 53

In interviews at MONDRAGON the concept of sacrifice is used to help explain why people commit to co-operation and why it appears to be a crucial part of the way people work together. **Here sacrifice is often expressed as generosity towards others. Importantly it is a value which is refers to social relationships and commitments.**

For example, MONDRAGON has a salary ratio of 1:6. This is said to create a significant culture of equality within the corporation. People may interpret managerial workers being in the co-operative as a form of a sacrifice as they might attract higher salaries elsewhere due to the 1:6 salary ratio.

Certainly, some of the senior managers we spoke to are aware that they could earn more outside of the co-operative but those we spoke to choose to stay in MONDRAGON because of its values and the security that membership may offer. For example, Fernando, 55, is a manager in a large co-operative who previously worked in the private sector. Fernando uses the language of generosity, rather than sacrifice, to describe his experiences of MONDRAGON:

*"I think there's also fundamental values of generosity, in the sense that I do want to earn a good wage but not in order to become a millionaire. As the director of commercial enterprise with a certain level of turnover and staff, I would earn way more for sure. But you carry being in the co-operative because you're interested in the sharing out of wealth. I can have a job and at the same time, create more jobs and more wealth in my environment."*

**Importantly there are different types of sacrifice and generosity at work in the model. Sacrifice is seen as the rationale for commitments or contributions towards others, which is experienced by them as generosity. This concept also recognises the generosity they have towards you and that you both have towards others. Generosity is expressed from one person to others, between people, and from a person to the area or future generations.** This is very similar to and builds on notions of inter- and intra-co-operation.

***Sacrifice for its own sake is not, but sacrifice for the good of something bigger is. Parents made sacrifices so that their children would be prepared for the future... Sacrifice is for the future, for something bigger you want to achieve, for a greater good, then that's it, you have to do it. You have to do it.***

Jose, 53

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38 Henrich, N & Henrich, J (2007) *Why Humans Co-operate: A Cultural and Evolutionary Explanation*. Oxford: Oxford University Press. p. 37.

## Self-responsibility: ownership and commitment

Another key concept which emerged in interviews as a shared value or narrative concept helps explain how an individual should approach their work in accordance with the values of shared work and shared outcomes. This is **self-responsibility**, *'auto-exigencia'*, which is understood as personal behaviour in accordance with collective principles and decisions. While there are implications for social control (and open and transparent regulation of each other's work) **it relates to the idea that people are protagonists in their own project**: *"Co-responsibility is linked to the fact of being co-proprietors of our own project, practicing solidarity but demanding rigour."* Maria, 45

In the co-operative context self-responsibility has a deep significance because each individual is an owner and is responsible for collective success or outcomes. Taking responsibility for yourself and each other is even more important when the business belongs to you. Self-responsibility stems from the awareness that *"I am the co-operative"* and everyone has to make an effort, whatever their position, to do their best for the future:

*"When you're a worker and a member, it means that you're the owner. It depends on which co-operative you're in, but in my experience you contribute much more... Because at the end of the day, it's your business and you have to be responsible for it."* Begoña, 36

As a result if you expect others to uphold the values and standards of your co-operative, you also simultaneously commit yourself to do the same. Luis, 57, says that *"it is about solidarity and responsibility, it's about saying that I'll help you but you also have to be prepared to help yourself."*

This value also relates to times when there are challenges and increases a feeling of participation. By recognising the tough decisions that need to be taken and the collective sacrifices that have to be made, you also acknowledge your role in that process. For example, as a co-operative member you accept the need for a pay cut (i.e. a financial sacrifice) for the wider good.

***The members had gone several months without taking home a proper wage, making significant efforts to get the business back off the ground. I was struck by the level of commitment people had to the project. The business began to recover and this created a sense of excitement, which in turn deepened the commitment because there was still that concern for the situation and the local perspective – our families, children, neighbours.***  
Eneko, 55, speaking about the 1980's.

## Democracy and participation

One of the elements of the co-operative model which distinguishes it from other business models is the centrality of partnership, trust and relationships.<sup>39</sup> Democracy and participation are key elements of the co-operative model as outlined by MONDRAGON members. Leire, 39, emphasises the fact that this has always been the case. She points out that **“people talk about workers’ participation in business as if it was something new and innovative, but it has been the essence of MONDRAGON since it began.”**

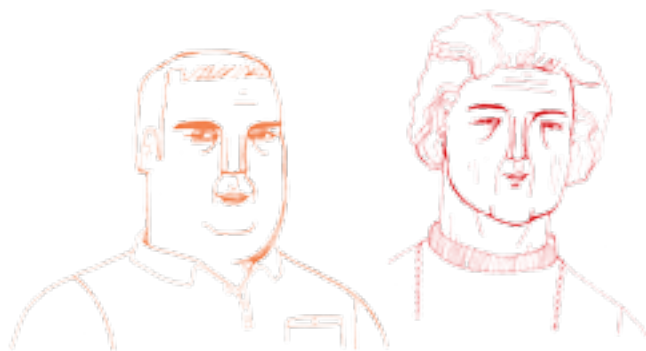
As a co-operative group today, MONDRAGON’s commitment to democracy is expressed in both ownership and governance. Equity in the organisation is owned by workers. This shared ownership is considered to build a sense of shared responsibility to look after the long-term best interests of the organisation. Further reinforcing this sensibility, each new member invests approximately €12,000, spread over 24 months, in the enterprise when they join.<sup>40</sup>

There are also commitments to democracy, which is a key feature sustaining and enabling MONDRAGON as a social innovation ecosystem. For example, at MONDRAGON there is a ‘one person, one vote’ principle which applies to major decisions. Each member has one vote, regardless of their role, financial contribution or how long they have been a member.

The right to vote extends equally to every worker-member in the corporation. Exact governance structures are particular to each individual co-operative but the principle of **‘one person, one vote’** is universal. This is much prized by co-operative members and to them represents a democratic attitude to decision-making that enables and mobilises effective participation.<sup>41</sup>

The ‘one member, one vote’ principle of co-operative democracy is considered by MONDRAGON members to be so important because it is an indication of the participatory equality that the co-operative operationalises in working practices such as the ability to be proximate to senior staff. For example Rafael, 37, talks about how the previous director of his co-operative, met with all new members of staff once a year:

*“I was touched deeply that the CEO of a multinational company would take the time to chat to new people and see how things were going.”*



39 Mayo, E. (2015). *The Co-operative Advantage: Innovation, co-operation and why sharing business ownership is good for Britain*. Co-operatives UK.

40 The exact figure and timescale varies between individual co-operatives in the group.

41 Interestingly there are links with Basque local government in which it has been commented that, *“a neighbourhood’s elected representative does not simply wield power, but builds consensus for group projects”*. (Morrison (1991), p. 69, drawing on Jacobs (1979).)



## Case study: Values in practice

'Democratic organisation' is one of the ten principles of the MONDRAGON Corporation.<sup>42</sup> The group and the individual co-operatives within it operate a system of representative democracy, acknowledging the impracticality of fully democratic decision-making in an organisation of 75,000 people.<sup>43</sup> Each individual co-operative has a General Assembly, an annual meeting of all members in which important decisions about their co-operative are made collectively.

Decisions about matters such as working hours are made individually by each co-operative. In addition, the corporation holds a Congress which debates and votes on significant strategic or social issues which affect the entire corporation such as its mission and values, election of its President, overall organisation and policies of the Corporation. This Congress consists of 650 delegates from the 101 co-operatives in the group. Each person has one vote.

Another aspect of MONDRAGON's representative democratic system is that members propose and elect representatives to the *Consejo Rector* (Governing Council) and *Consejo Social* (Social Council) of their respective co-operative. Any member may be elected, and an elected member is required to serve.

The Governing Council is responsible for the 'big picture' vision of its co-operative – its mission, strategy, policy, financial health and monthly progress. The Governing Council is led by a President who is appointed from among its elected members, whose decision must also be ratified by the General Assembly.

The role of the Social Council is different; it does not have the formal decision-making power of the Governing Council. Its main function is to communicate the perspectives of frontline workers to the co-operative's leadership, and generally facilitate multidirectional communication between frontline workers and their governance and management bodies. It often makes recommendations to management or the Governing Council on key issues, advocating on behalf of frontline workers and addressing local issues that arise.

In addition to the democratic bodies already mentioned, each co-operative also has a *Consejo de Dirección* (Management Council) which is responsible for the development and executive management of the business. This is led by the *gerente* (CEO) who is appointed by the Governing Council.

<sup>42</sup> MONDRAGON Our Principles, website.

<sup>43</sup> This section and subsequent factual explanations of the MONDRAGON co-operative model is based on direct correspondence with members who explained the functioning of the model to us.



## Learning by doing – enabling participation in innovation

The final principle identified as central to the values of MONDRAGON, especially over time, which we look at more fully here than other values, is the idea of ‘learning-by-doing’. Learning-by-doing enables participation and essentially reflects the generosity of members towards their community, by training them and facilitating their participation. It is a central value to understanding MONDRAGON’s innovation style.

Learning-by-doing is the idea that learning and labour participation is possible with access to practical resources and the appropriate support and training.<sup>44</sup> As described by people at MONDRAGON it relates to an educational idea of doing something through practice and reflection.<sup>45</sup>

As broadly expressed at MONDRAGON, this approach is about having confidence in people that they can have success using their labour through trial and innovation. This is closely connected with labour sovereignty as the first business principle at MONDRAGON, and innovation as one of Arizmendiarrrieta’s guiding founding concepts. It is very much in keeping with founding values around education as empowerment and commitment to transforming society; and also connects to innovation principles.

Importantly, the idea that people are able to take part and learn as they participate fundamentally speaks to principles of generosity and enabling broader levels of participation. It also raises questions of what type of capital resources might be included in the benefits of MONDRAGON, in that this mobilisation of talent relates to social capital, not just economic capital.

The first co-operatives began in conjunction with the technical school in order to provide vocational education. Principally they provided a combination of education and experience, theory and practice. Innovation was also a key part of the model as it was seen as essential to growth.

This concept of learning and doing is an ongoing process for MONDRAGON.<sup>46</sup> It was likely key to the first establishment of different co-operatives, initially, especially as it enabled membership of people who might not have had specific skillsets through which they could contribute their labour. Initially, learning-by-doing stays at the individual level: it is about the ability to experiment and innovate to address societal challenges. However, it is enabled at the social level: by other people giving their support to you learning as an individual.

***I’d definitely prefer a co-operative. I’d prefer to work in a business which wasn’t just one with a lot of capital, but one which created employment and created impact. That’s more important than ever nowadays, creating jobs and creating wealth but not just in a financial sense, but socially as well.***

**Iratze, 19, student**

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44 This relates to John Dewey (1859–1952) and William Heard Kilpatrick’s (1871–1965) concepts of learning by doing.

45 It has its roots in more didactic approaches and has links with economic theory whereby a protagonist might implement better solutions through trial and testing.

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46 Morrison (1991).

However, evidence indicates that experimentation can be socially mobilised, especially in situations where social confidence is not well-established or where people are thought to lack social capital and feel that they need the 'social permission to act'.<sup>47</sup> Interestingly, although learning by doing does relate to vocational training, one aspect of learning by doing is the generosity of relationships between people: the way that you are taught and supported by others to learn and develop yourself as a co-operative member, not just learning to do the job itself. This is about the shared confidence to innovate and to trial new ideas together. Risk taking, personal experience and developing a sense of working identity is central to people's understanding and expression of the co-operative model. In interviews people speak about the co-operative as a way of life they learned through being involved rather than something they came to 'fully formed' or 'with the skills for':

*"I wasn't born a co-operator, I became one."  
Asier, 54*

**The Alecop co-operative** began in 1966 in order to facilitate this combination of learning and earning which continues today. It is a leader in the development of educational projects and market development, illustrating how the ecosystem approach develops complementary institutions to sustain mutually reinforcing practices aligned with keystone values.

Miren expresses this sense of learning when she talks about how things have been shaped by the co-operative: *"In some ways, I do think it's all ingrained in us now. **We don't do it because we have read it all in books and thought it was good. I think it just comes naturally to us, to do things this way because we don't know any other way of doing things.**"*

We have focused on learning by doing in more depth in this case study because learning by doing is also about innovation and economic growth<sup>48</sup> by solving a tangible challenge by providing a product — core to MONDRAGON's industrial heritage. This gives learning by doing a strong connection with innovation principles, as innovation is a necessity in order to develop or find new products, services, processes, and management techniques to meet existing social and market needs. Other commentators have seen this to be at the heart of MONDRAGON's development, believing it to have supported endogenous growth because it also relates to innovative business practices as well as giving others the skills to do something.<sup>49</sup>

47 Hodgson, M. (2017, forthcoming). *People Like Us Don't Do Things like That? A Guide to Community Action*. London: Young Foundation.

48 Arrow, K (1962). The Economic Implications of Learning by Doing. *The Review of Economic Studies*, 29 (3); Yang, X. and J. Borland (1991). A Microeconomic Mechanism for Economic Growth. *Journal of Political Economy*. 99 (3).

49 Larrañaga Lizarralde, J. (1998). *El cooperativismo de Mondragon: Interioridades de una utopia*. Basque Country: Atzatza, p. 117.

## Case study: MONDRAGON Team Academy and social innovation

MONDRAGON Team Academy (MTA) is a practical learning programme offered by Mondragon University in several campuses, in which students learn entrepreneurship through running their own businesses rather than through traditional academic learning methods. Students are referred to as 'teampreneurs' and there is an emphasis on active learning and co-operative values. It is based on a Finnish model but has connections with 'learning by doing'.

When students at Mondragon's Team Academy were asked to define social innovation, their responses and discussions shared many values and ideas about social innovation heard from members working in the cooperatives:

*It's about **not settling for what you've got** but trying to improve things, with copying and improving what there is. Inventing something and doing it together social conscience and the desire for an impact where you are, with the people who are there, to improve the situation.*

Maidar, 20

*I think that social innovation is basically that idea of **leaving things better than how you found them.***

Ainhoa, 21

*Social innovation is more than just giving something to disadvantaged people. It's about having a social impact and bringing those people into the business.*

Oscar, 21

*[It is an] effort to do things in a different way, which isn't the typical way of doing things, **trying to do something in a new way which people haven't done before or don't expect.** Doing things differently, contributing something more creative, thinking outside the box a bit. Moving away from the established patterns of things to create **something new and original.***

Marta, 20

# Social values drive the development of the practices that feed innovation

These principles have in turn been used to develop entirely new models of doing business in the Basque country. The organisation that has developed, we argue, holds true to our definition of social innovation, as summarised in the table below.

## Summary of MONDRAGON as a social innovation

ASPECT OF SOCIAL INNOVATION	RELATED MONDRAGON FEATURES
New approaches to addressing social needs.	<p>MONDRAGON isn't the first worker-led co-operative but it is a model that was entirely new to its own context when developed. The MONDRAGON model was created in an environment of deprivation and isolation and so required adaptations to ways of doing business.</p> <p>Worker co-operatives as an approach to social needs have existed for 150 years, but MONDRAGON took this approach into sectors of the core economy — manufacturing, retail and R&amp;D&amp;I — of a particular region as none had done before.</p> <p>These adaptations are distinct to the MONDRAGON example. In particular both the informality in arrangements between co-operatives in the early days and extensive, institutionalised inter-co-operation in later decades, are key features of the MONDRAGON model.</p>
They are social in their means and in their ends.	<p>MONDRAGON developed its model not only to serve a social good but also with an aim to do this in a way that puts socially positive ways of working, such as democratic participation, at its heart. It also seeks to empower people, teams and communities in addition to creating new ways of working with, or formulas for, improving social relations</p>
They engage and mobilise the beneficiaries and help to transform social relations by improving beneficiaries' access to power and resources.	<p>MONDRAGON aimed to build a model of work and enterprise ownership: all workers are actors and protagonists of the organisation, and all are involved in the processes of decision making and development.</p> <p>Whilst today not all employees are members, MONDRAGON still aims to ensure that principles of collaboration and idea sharing are central to ways of working.</p>

## What kind of innovation is MONDRAGON?

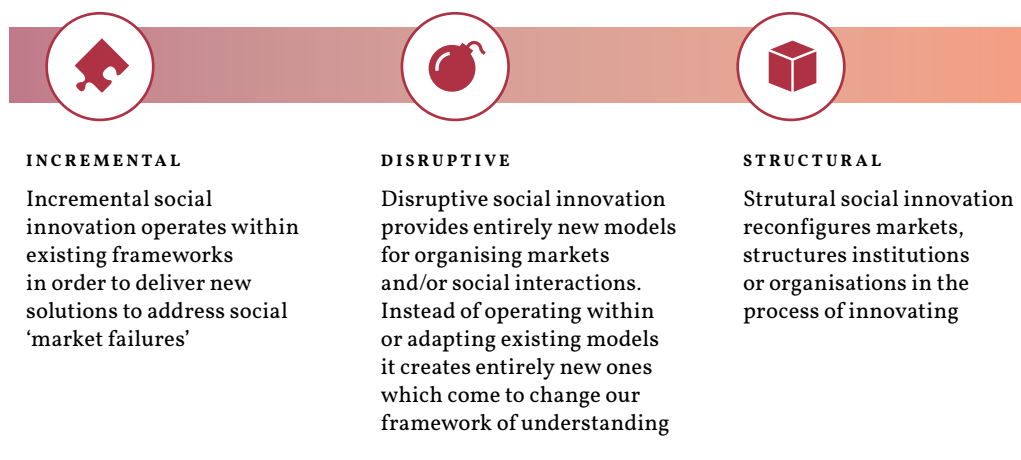
Social innovation theorists frequently identify social innovation as coming in three distinct forms,<sup>50</sup> as is shown below.

We suggest that MONDRAGON is most effectively understood as a kind of disruptive innovation. This is because MONDRAGON has not and does not look to reorganise existing structures or address specific market failures.

Rather, today MONDRAGON looks to provide an alternative way of doing business in its context: it is a model that looks to tackle issues of social deprivation, unemployment and skills shortages through the creation of a business complex driven by a core set of social values rather than being able to work with existing

mechanisms or access to resources, it creates its own. For example, MONDRAGON's principles of participation and democracy are very important for understanding collective decision making and shared power. Compared to conventional business models, there is a disruption to traditional power structures.<sup>51</sup>

**This is historical. Key to the innovation inherent in the MONDRAGON model was the disruptive nature by which these practices were aligned to the relationship of labour and capital. Mondragon workers have been and are owners and workers at the same time. They describe themselves as protagonists.**



***The values of today's world are increasingly individualistic and selfish. People are losing the values which have greater relevance to those of the co-operative. Society's values are increasingly less aligned with the theoretical values of the co-operative. It would be good if the co-operative model and what it promotes fitted better with the values of our society.***  
Iker, 46, co-operative member

<sup>50</sup> Nicholls, A., & Murdock, A. (2012). The nature of social innovation. In A. Nicholls & A. Murdock (Eds.), *Social innovation: Blurring boundaries to reconfigure markets* (pp. 1–32). Hampshire: Palgrave MacMillan.

<sup>51</sup> Erdal, D. (2012). *Employee-owners do it better*, TEDx Glasgow: [www.youtube.com/watch?v=yb2hoqPWp2Q](http://www.youtube.com/watch?v=yb2hoqPWp2Q)

## Case study: Solidarity, labour-sovereignty and its relationship to wealth creation

MONDRAGON evidences a distinct approach to wealth creation which is based on solidarity between members and with the local region.

As the diagram below shows, MONDRAGON's first priority is functioning as a competitive and profitable business. However, financial capital is described as "instrumental and subordinate" to its business operations.<sup>52</sup>

**The co-operatives rely on capital as a tool for creating employment and for long-term sustainability of the model. Profit is sought as a means for job creation and socioeconomic change, rather than as an end in itself. Capital is important primarily because it enables the economic success of the co-operatives.** This in turn means

they are able to transform people's lives and sustain the wider social innovation ecosystem of MONDRAGON in a way which is more resilient to external factors.

The sovereignty of labour is part of MONDRAGON's credo; the corporation lists this as a key principle and states that "**labour is the main factor for transforming nature, society and human beings themselves.**"<sup>53</sup> Rather than depending on the wealth of natural resources available in the area, the co-operative group utilises the value of local human capital.

Employment creation and preservation, at whatever scale, is deeply embedded in the culture of the co-operatives and can be seen as an aspect of MONDRAGON's solidarity with society.

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<sup>52</sup> Ibid.

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<sup>53</sup> Ibid.

However, it has been noted by commentators that Arizmendiarieta was good at working with context to create change. He is said to have been particularly good at navigating the complexities of Spanish law in order to find a suitable legal title for each institution.<sup>54</sup>

By the mid-1950s, the first co-operative organisational groups or ventures were established on the basis that they would employ the young people who had been trained by the technical college. Ulgor, the first co-operative, was set up by Arizmendiarieta together with five others – Luis Usatorre, Jesús Larrañaga, Alfonso Gorroñoigoitia, José María Ormaechea and Javier Ortubay – based on a shared vision of change. Importantly this shared vision of change was a new way of doing things in a context and engaging with social need to do something radically different:

*“When Arizmendiarieta arrived in the town, it was a poor environment in every sense: relationally, socially, economically... Given this need, he was able to generate a lot of enthusiasm. The fact that progress was rapid gave it the strength to continue. There was a specific need, in a particular environment, with specific people – and the fruit of much hard work and dedication in order to achieve the objectives. The educational movement of this valley is not a coincidence.”* Arantza, 53

If we take the example of Lagun Aro we can see how the disruptive nature of MONDRAGON came to require complementary innovation. In 1958, the Spanish Government passed legislation that decreed that members of worker co-operatives were ineligible to receive social security because their membership meant that they were considered self-employed by the state.<sup>55</sup> Faced with a challenge to member welfare Lagun Aro was developed in order to provide forms of social welfare to members. Caja Laboral<sup>56</sup>, a co-operative bank was established as well as Lagun Aro, to provide financial resource which could aid growth and underpin sustainability.

54 Campbell et al. (1977), p. 25

55 MONDRAGON (2016) – History (English): [www.mondragon-corporation.com/eng/co-operative-experience/history/](http://www.mondragon-corporation.com/eng/co-operative-experience/history/). The public social security regime at the time did not cover those classed as self-employed, which in the 1950s included co-operative members.

56 ‘Workers’ Credit Union’, known as *Laboral Kutxa* in Basque.

Establishing these different organisations or servicing functions was considered strategically key. As we will go on to see, they underpin MONDRAGON’s approach as a social innovation ecosystem. The need for this support came about precisely because of the disruptive nature of the MONDRAGON model and it is what has informed its journey to a ‘social innovation ecosystem’.

Importantly, in our interviews, people described the creation of these various complementary institutions as a way of meeting needs that were not simply pressing or immediate. Rather, they spoke to the more ambitious and long-term aims of sustainable human development, based on the creation of genuine transformation:

*“He realised that here there was the embryo of a great idea, of growth, but if he didn’t do certain things bound to the community, it could all fail. So he decided that what was needed was a savings accounts, a bank, although he didn’t exactly call it a bank. If we don’t create a bank, everything else will be undermined... at that time, in the post-war society, people had money in small businesses and farmhouses. The money was already there to an extent but creating a bank gave it an image of solvency. Having this image of solvency made it seem responsible and viable and was very important for the development of the entire co-op experience. Caja Laboral still exists and it is still an important part of the co-operative group.”* Joseba, 71

Pooling money collectively into a shared financial service to provide greater solvency, legitimacy and permission to the community can also be seen to be a disruptive move which underpinned the central vision.

Caja Laboral is another important example which began with the objective of contributing ‘social, economic and business services’ to industrial co-ops. It had to collect resources from the co-op members in order to give them to their own. Further, to organise the coverage of Social Security, they set up the Provision Service, the basis of what is now Lagun Aro. In a period of crisis which began in 1974, the mutual support of the co-operatives and the action of Caja Laboral was key for the development of the group.

**CHAPTER 3**

**MONDRAGON's  
social innovation  
journey**



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## What sits behind MONDRAGON's social innovation and ecosystem evolution?

A major question for those interested in social innovation theory is when something stops being an innovation or socially innovative. So, given MONDRAGON is a long-standing co-operative group, this section explores the extent to which MONDRAGON can still be considered a social innovation today.

In what follows we look at the journey MONDRAGON has taken and the ways in which MONDRAGON has evolved over the years. We argue that not only can we still consider MONDRAGON socially innovative but that it has also enabled this continuing innovation through the development of what we believe is a unique social innovation ecosystem. In the next chapter we go on to explore the features of this ecosystem.



## Is MONDRAGON still innovative?

Social innovation theory has continually grappled with the question of when a social innovation stops being a social innovation.<sup>57</sup> There is no clear answer to this. However there are a number of factors that contribute towards whether or not something continues to be an innovation, including:

- the amount of time that an innovation has been in place
- the degree to which it has achieved market share or scale
- the extent to which it has become 'institutionalised'
- the extent to which it continues to adapt or change.

In respect to the questions above we can see that MONDRAGON has been around for more than half a century. It has achieved substantial market share and scale and it can be considered to be institutionalised, both internally and within the context of the Basque country where it is engaged both with the community and with institutional actors.

What is more, we might argue that the incorporation of subsidiaries outside of the Basque country who are not co-operatives, and which therefore do not hold on to the same values of democracy and participation, is a migration from the innovative model developed into a more traditional corporate model.

In addition there is an extent to which some of the democratic elements of decision making processes at MONDRAGON create a climate in which change is difficult. With all members voting on recommended change or innovation, change can appear to be slower or blocked. For example, Aitor describes challenges in making

his proposed changes to the organisational structure were voted down by members in the Assembly, he "*felt a bit out of place in the co-operative, to be honest.*" In this sense MONDRAGON's decision making exercises consistency with values. This might encourage some to view MONDRAGON as no longer innovative.

However, whilst these dimensions may seem problematic, MONDRAGON exists, still, as a disruptive example in the world of a different way of doing business.

Whilst elements of its own practices are entrenched MONDRAGON continues to exist as a model that is decidedly not 'the norm' and continues to provide another business model to the world, even as the global economic context shifts and changes around them.

The adaptive capabilities of MONDRAGON continue to be decidedly innovative. In the face of issues such as the decline and collapse of Fagor Electrodomésticos MONDRAGON looked to leverage the capital of the cooperative in order to save jobs and, when this failed were able to redeploy most of the workers in the organisation. This shows the continued attitude of innovation which, enabled by the power of the cooperative model, continues to offer new models not only for doing business but also for dealing with crisis.

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<sup>57</sup> Rønning, Rolf, and Marcus Knutagard. *Innovation in social welfare and human services*. Routledge, 2015; TRANSIT Deliverable 4.4 Theme [ssh.2013.3.2-1] [Social Innovation- Empowering People, changing societies] Project Full Title: "Transformative Social Innovation Theory project" Grant Agreement n. 613169.

## MONDRAGON's continuing journey of social innovation and sustainability

It is this need to work with the wider context that has spurred the development of the social innovation ecosystem. MONDRAGON, despite its successes, has not been adopted as a global model for doing business.

As a result of this it has systematised a set of processes that looks to guarantee its own longevity for the greater good. The innovation ecosystem looks to create an enabling environment not just for today but also for the future. We argue that it is precisely this set of processes that ensure that MONDRAGON continues to be innovative in the face of barriers.

Over time there has been a progression in the way that MONDRAGON as an organisation works. It has developed what can be seen as an endogenous framework of continual innovation which speaks to the internal narratives of MONDRAGON, organisational culture and core values, as can be seen in the diagram below.

Here, MONDRAGON can be seen to have evolved from a social enterprise, which disrupted classic economic models with the aim of tackling inequality and deprivation, to an organisation which has needed to innovate internally in order to maintain itself within a global and national environment where it continues not to be the norm. MONDRAGON members discuss how it has continually adapted to its environment and innovated internally. There is solid support for innovation and it is one of four agreed formal principles or 'values', as well as one of Arizmendiarieta's key concepts.

Simultaneously MONDRAGON now exists as a collection of organisations and bodies which work together to enable one another, and to drive continued positive social change. In this way MONDRAGON has journeyed from a social innovation to a kind of innovation ecosystem, as explored further next.



### MONDRAGON BUILDS CO-OPERATIVE BASED SOCIAL ENTERPRISES

MONDRAGON began as an enterprise designed to address the poverty and deprivation of the Basque Country. Its mission was to use a co-operative model in order to provide jobs and improve livelihoods. From the development of the first venture, Talleres Ulgor, MONDRAGON had to innovate in order to introduce the co-operative model to this complex context.



### BROADER INSTITUTIONS DEVELOPED TO SERVE ENTERPRISES FOR THE COMMON GOOD

The success and growth of MONDRAGON quickly demanded adaptation. This began in the form of 'enabling institutions' such as the Caja Laboral, the credit union, and Lagun Aro, a body providing social welfare.

In this way innovative solutions were found in the process of adapting existing models to the specific needs and challenges of MONDRAGON.

An internal 'complex' of complementary innovations developed in order to help serve the social missions of the organisation.



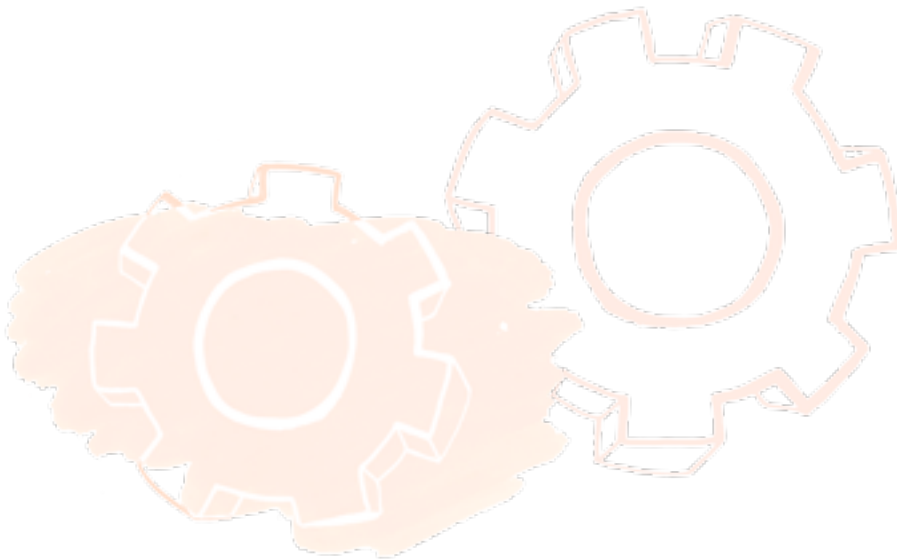
### MONDRAGON: A SOCIAL INNOVATION ECO-SYSTEM

As the economic and social context has shifted MONDRAGON has needed to maintain itself in ways that continue to be disruptive. So MONDRAGON has had to develop new ways of supporting innovation by working both with members and others to develop and trial new ways of working.

In this way MONDRAGON can be said to have developed an eco-system of social innovation by creating both internally, and through networks and initiatives with others, a model of working which demonstrates the viability of a competitive and socially minded business.

## **Sustainability and innovation has always been a feature of MONDRAGON's work**

- Founded on principle of labour sovereignty
- Vocational education and co-operative employment
- Humanistic participatory business principles
- Mutual self-help and work ethic
- Distributed co-operation between different groups was essential to sustainability and growth
- Growth should involve adaptation and innovation
- *“The sign of vitality is not to endure but to be reborn and to be able to adapt.”<sup>58</sup>*



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58 MONDRAGON (2015), *Arizmendiarieta 100: Reflections*. Available at [www.arizmendiarieta100.com/wp-content/uploads/2015/02/Reflections.pdf](http://www.arizmendiarieta100.com/wp-content/uploads/2015/02/Reflections.pdf).

# MONDRAGON's different stages of innovation

In what follows below we explore the different stages of innovation that MONDRAGON has engaged in. This helps us understand its development into an ecosystem and its continuing socially innovative commitments.

## Stage 1: MONDRAGON builds co-operative based social enterprises

When MONDRAGON began it was an innovative response to a local socioeconomic scenario that brought new actors, relationships and resources into a specific context for broader social good: the training school. Out of this training school came the first ventures, beginning with Talleres Ulgor.

**Talleres Ulgor was set up in 1956, taking its name from the initials of the men who founded it: Luis Usatorre, Jesus Larranaga, Alfonso Gorronogoitia, José María Ormaetxea and Javier Ortubay. The five founders were all students at the technical school. In 1959, inspired by Arizmendiarieta, they converted their business into a co-operative and it became known as Fagor, one of the first co-operatives in what would later become MONDRAGON. It was one of the most influential co-operatives in the establishment of Caja Laboral and ultimately in the setting up of the larger co-operative group itself.**

This was a clear example of a social innovation taking the form of a social enterprise. Venture-led, the founders innovated by adapting the classic co-operative model to the specific and challenging social context of poverty, hunger, exile and tension,<sup>59</sup> developing a model of manufacturing that aimed to competitively provide well-made goods in a way that was both sustainable and embraced a sense of responsibility both to workers and the wider community.

By training them and accepting people into the co-operatives regardless of background, the co-operatives helped develop the skillset and

confidence of the broader community. This social development of skills, the way of working together in cooperation and the confidence to make these changes is key to the development of continuing innovation.

**This stage of MONDRAGON's progression is readily accepted and conceived of by members as a social innovation. For example Garbiñe, 36, comments: "Going from there to the co-operative model breaks these hierarchies, the organisational model, the decision-making process, the distribution of profits... For me, all of this is what it means to be socially innovative."**

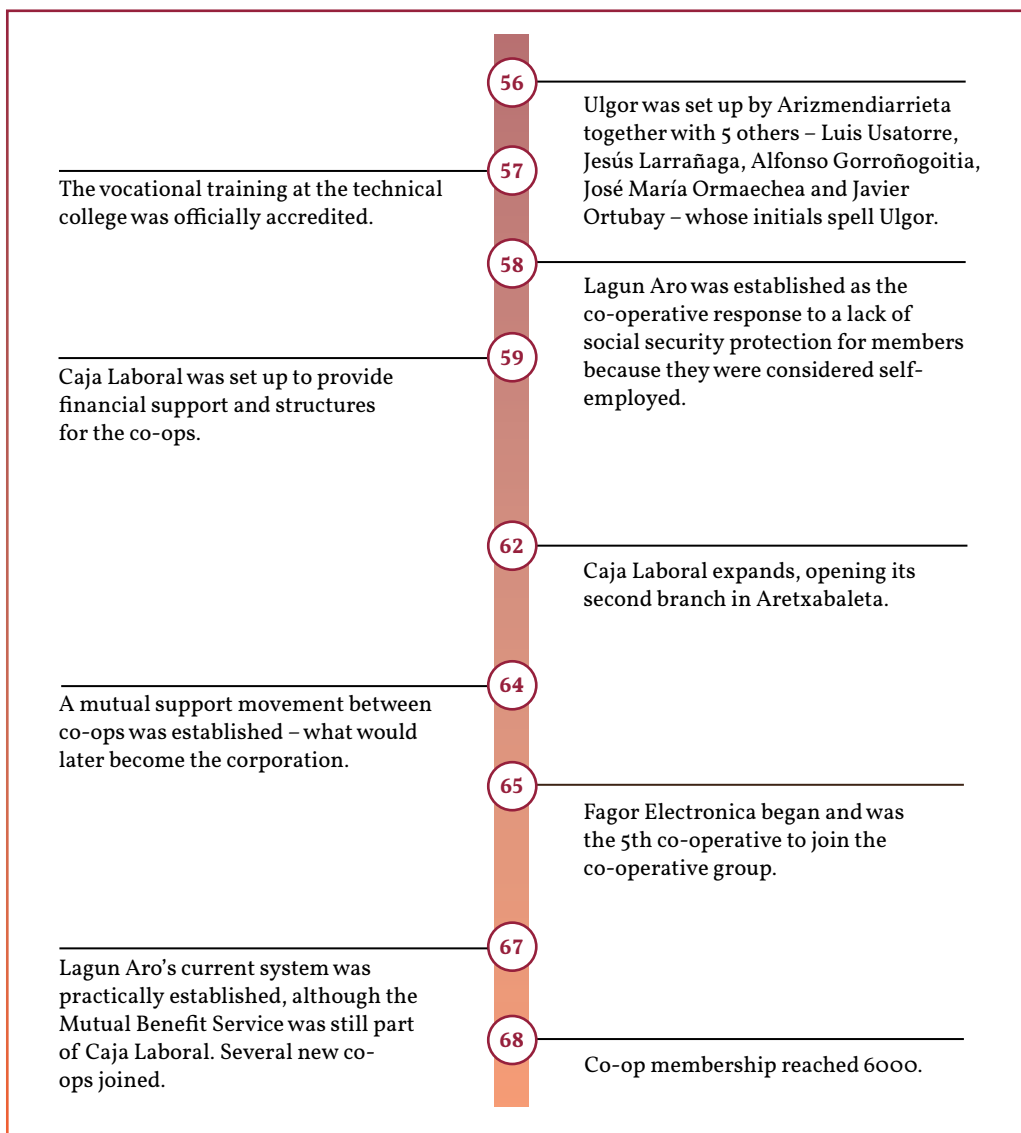
## Stage 2: MONDRAGON develops broader institutions to serve these enterprises for the common good

It is possible to consider that MONDRAGON has continued to be innovative beyond this initial stage, and beyond its original innovation in applying the co-operative model to this context. The progression from one co-operative to the 'MONDRAGON co-operative complex' can be seen to have been even more innovative than its beginnings.

As we have seen in our discussion of disruptive innovation, when the first co-operatives were developed it was found that, for these innovative projects to sustain themselves, in an environment in which it was difficult to do business (due to issues such as economic deprivation and geographical isolation) there needed to be new supportive institutions that could enable them. It is particularly interesting to note that this was an early founding vision of the original members. They recognised that innovation had to be complementary which would need different institutions or social innovations co-operating to support the vision. We will go on to describe why this is a key consideration of MONDRAGON as a social innovation ecosystem. However as the timeline shows, this was understood by MONDRAGON's founders to be an essential feature of how MONDRAGON needed to develop to create sustainability, and was acted on.

<sup>59</sup> Mondragon 1956–2016 (2016) Mondragon www.mondragon-corporation.com/wp-content/themes/mondragon/docs/History-MONDRAGON.pdf

## MONDRAGON's founding timeline



As such, complementary forms of innovation were created in order to serve the initial models. Seeing the need for credit and a safety net, the founders began to set up secondary co-operatives that would serve the manufacturing arms.

Joseba, 71, describes the development of the credit union, Caja Laboral:<sup>60</sup> “[Arizmendiarrieta] realised that here there was the embryo of a great idea, of growth, but if he didn't do certain things, it could all fail. If he didn't do certain things bound to the community it

could all fail. So he decided that what was needed was a savings account, a bank, although he didn't exactly call it a bank. If we don't create a bank everything else will be undermined.”

This began with Caja Laboral but quickly there were other developments such as Lagun Aro. Caja Laboral in particular was designed specifically to offer capital that catered to the financial needs of new co-operatives and others facing difficulties.

<sup>60</sup> 'Workers' Credit Union', known as *Laboral Kutxa* in Basque.

The disruptive nature of the social innovations meant that a number of services were not available to them. As such they must continue to innovate, to forge an environment to enable the whole. This was clearly part of the initial vision. These developments can be seen as clear examples of social innovation; they were collectively set up to offer services that would ordinarily have been provided by either private sector actors or the state.

This required significant levels of innovation in order to ensure that these models could serve their purpose in a way that was in line with the social mission and values of the co-operatives. Within ten years, the co-operative membership had grown to 6,000 members and created a variety of co-operatives serving different functions, such as a bank, and processes such as welfare and security for members had been designed and implemented.

The collective aspect of this approach can be seen in business practices, such as in the way in which the co-operatives work together in order to try and save another that is struggling. For example, when members were asked to sacrifice 1% of their income to save the Fagor Electrodomésticos co-operative when it was facing financial issues *'every single one of them voted in favour of it'*. Whilst this is not always a successful undertaking and can be a source of some concern, the effort is one in which we can see an innovative collective response which also underpins sustainability. The process of trying to ensure employment of those who are made redundant, too, can be seen as another example of this.

### Stage 3: A social innovation eco-system

These institutions have been propagated over the years with the development of a University, provision of medical services, and other forms of support. Behind all of these complementary institutions was a desire to embed, enable and make sustainable a new way of working, one

which places a desire to improve livelihoods, and serve the common good at its heart. This can be seen in the development of the Business Division of Caja Laboral, and the origin of LKS, set up as a form of incubator for companies which is a key way in which MONDRAGON has been able to sustain itself as a social innovation.<sup>61</sup>

This stage of MONDRAGON's development is innovative for all the reasons described above. In addition, it is innovative because of the lack of formality in these arrangements.

Importantly MONDRAGON did not formalise the relationships between the co-operatives until 1984 when the MONDRAGON Co-operative Group was formed. **Until this time, the relationships between co-operatives were informal, held together by a shared set of values, a shared history and a sense of 'kinship' between the different organisations. Much of the way MONDRAGON functions continues to be informal, for example, its salary ratios.**

**The presence of this informality is important as it establishes that a degree of innovation is possible where it is consistent or desired.** It also indicates that values are consistently regulating and supporting the shared profits and labour sovereignty of the system, as seen when people attempt to make changes that appear inconsistent with values.

**The maintenance of this complex set of arrangements based on voluntary grounds is a highly innovative way of doing business and one which is still present in the organisation.** In this sense MONDRAGON can be seen as a key example of where the values are akin to the federal structure of the organisation rather than supporting elements.

We argue that this is a key dimension to MONDRAGON's successful journey as an evolving social innovation ecosystem. As Pedro, 75, comments: *"Business is an essential field to promote co-operation, both in the formal ownership structures and in informal relationships and workplace management."*

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61 Ibid.

**CHAPTER 4**

**MONDRAGON as a  
social innovation  
ecosystem case study**



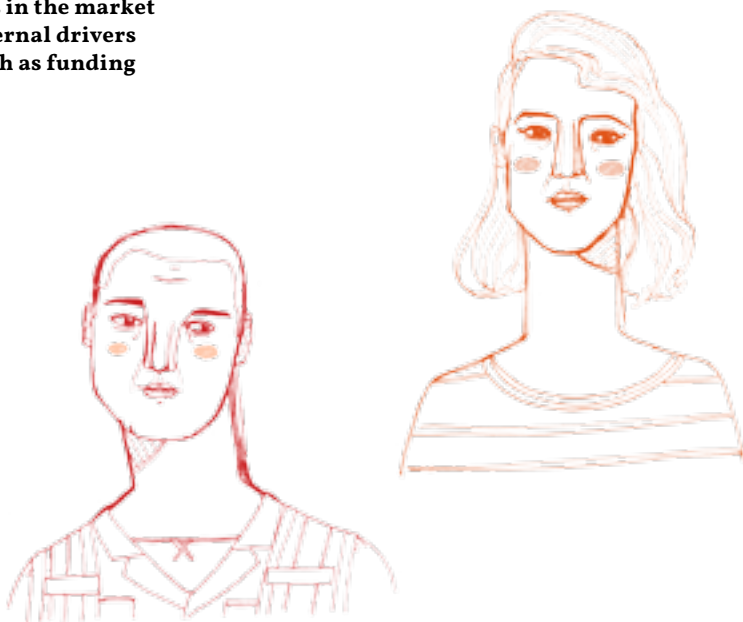
We have seen that as MONDRAGON has progressed it has developed this integrated approach even further, into something that we have referred to as a 'social innovation ecosystem'.

As we explored above, previous research has suggested that social innovation eco-systems are often borne out of necessity.<sup>62</sup> This was very much the case with MONDRAGON.

Social innovation theory often refers to 'ecosystems' as an environment or framework which includes the institutions, services, capacities and capabilities required in order to be enabling to social innovation. Explorations of social innovation ecosystems frequently talk about putting in place a framework in order to ensure that 'luck is turned into something predictable.'<sup>63</sup> **This means recognising interdependencies as well as needs. It also means helping to build new institutions when there are visible gaps in the market or servicing them with external drivers or support frameworks such as funding or capacity development.**

Over time MONDRAGON has developed a set of **complementary institutions which work together within a co-operative framework.** Through this framework, the collective power of members and participants, their capital, their skills and their labour is leveraged, to build a sustainable model of competitive business that looks to serve broader social goods, for members and beyond.

This case study gives potential to understand MONDRAGON as a distinctive innovation ecosystem acting at scale which was established, is driven, and is sustained by a set of shared social values operationalised by people, and which also achieves broad benefits. What is interesting here is that MONDRAGON works at scale.



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62 Braithwaite, P (2015). Social innovation ecosystems: what the concept means, how it has been applied elsewhere and a proposal for Northern Ireland. Building Change Trust.

63 Philipp Von Der Wippel quoted in: Braithwaite, P. (2015). *Social innovation ecosystems: what the concept means, how it has been applied elsewhere and a proposal for Northern Ireland*. Belfast: Building Change Trust.

## The balance of negotiating context and changing the context

As we have already outlined, the process of innovating is a negotiation between social innovations changing their context, and context changing to enable innovation. We can see this represented to some extent in the social enterprise sector in the UK. Incubation and acceleration programmes are frequently used in order to help social enterprises develop models that work in the current context, including helping people to understand clear processes like commissioning and bidding for work. These are clear programmes designed to help social innovators understand and develop within their context. Equally, advocates of social innovation work in order to develop institutions and policies that make the context easier to operate in, helping the context to be enabling of innovation.

For an innovation to be successful, case study examples and theory suggest that these two dimensions have to find a balance in which they come to work with one another. MONDRAGON, as noted, was a disruptive innovation and one that was, in many ways, not enabled by its context. In this way, it did not look to exert pressure on policy makers, with whom history suggests they had little traction. Instead of looking to change the existing context they needed to build their own. A good example is the creation of the welfare fund 'Lagun Aro to compensate for being cut off from state social security.

This can be seen to constitute the building of a social innovation ecosystem which works to perpetuate the conditions which facilitate MONDRAGON's mission.

Igor, 59, member and CEO of a large co-operative says that MONDRAGON functions as ***“one connected experience, but with different implementation systems.”*** He suggests that ***“Arizmendiarrieta didn't expect the current model to survive in the Basque area exclusively, but to adapt and generate new models which are efficient in different societies and cultures globally. Rather than violating the principles, we need to adapt and renew them.”***

## Mondragon's context changing and contribution

In what follows we examine one element of the way MONDRAGON might be said to have changed the context around it through its socially innovative mission.

One of the questions about social innovations often refers to their lack of reach, impact or scale. Criticisms of or frustrations with social innovation as solutions sometimes focus on the limitations of their outcomes or impact or practice, in that “they have not been distributed as generally or as equitably as they should.”<sup>64</sup>

A good way to explore this is the impact any innovation creates in meeting its mission. In describing MONDRAGON, people often explain how connected it is to place and culture. This is evidenced in socioeconomic indicators which show its contribution but is also reflected in the way people describe the experience of living in the towns with a strong MONDRAGON co-operative presence.

For many of those who were interviewed, being part of MONDRAGON represents a shared commitment to a collective or others in their community. There are also links with values and practices in the area, in that some people feel that there is an interplay and mutual commensurability between the co-operative working style and the experience of living in or around the area. Some feel that the co-operative system is culturally embedded and broadly similar to their personal values or ways of doing things outside their working lives. Here co-operatives are presented like they are a way of life. Mikel, 55 a senior manager of a large co-operative, who has always lived locally, calls this ‘being at home’.

This sociocultural value commensurability between personal and work lives and personal acceptance of the model is very significant as it helps us to understand worker mobilisation and satisfaction, beyond worker ownership.

In Mondragón, the town in which MONDRAGON was founded and its headquarters are based, there are clear family and place-based community links to the co-operatives. Miren, who doesn't work at the co-operatives, but in local government, describes the naturalness of the environment to her: *“I grew up surrounded by the co-operative at home. My parents were involved with the co-operatives, the neighbours were all co-operativists, my uncles were as well. It was a very natural thing.”*

Interestingly awareness of the co-operative is also often linked to geographical proximity to MONDRAGON's epicentre in Mondragón. **There is a feeling that being part of its immediate community, living in the town, grants a knowledge of a way of living and working that others do not have.** Here people sometimes talk about knowledge of the corporation and the co-operative model getting stronger the closer you are geographically to the town. They also say that the frequency of co-operatives increases the same way: Gipuzkoa, where Mondragón is located, has a much higher co-operative presence than the other Basque provinces of Alava and Bizkaia. Eneritz, 54, a co-operative member who lives in San Sebastian says that *“the level of co-operatives depends on where you look, but the further into Gipuzkoa you go, the more apparent it is.”*

And, despite the presence of a healthy social economy in the Basque Country, people perceive that an interplay of Basque and co-operative values have made Mondragón distinct to other towns in the Basque Country or elsewhere, in that **the co-operative has started to change the way people think over the years, create confidence in them to get involved in other activities, or has nourished their different types of capital – whether financial in creating greater equality between people, or social and cultural capital – which focus on their ability to work together to find solutions or be creative.** Maialen says that this is part of the *“whole social fabric of MONDRAGON, the impulse to create things in society”*

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64 Moulart, M, et al. (2015). *The International Handbook on Social Innovation: Collective Action, Social Learning and Transdisciplinary Research*. Cheltenham, UK: Edward Elgar.

Garbine, 36, a co-operative member, describes living in the area as a “complete ecosystem”. She points out that everything — from the hospital where she was born, to the school where she was educated, to the university where she now works — was made possible by the co-operative’s commitment to local development.

These benefits are socially impactful but there are also economic links, in that levels of equality are higher in the immediate area surrounding MONDRAGON than elsewhere. As we have seen, MONDRAGON makes a significant commitment to its environment. The benefits of this lie with people’s experiences of living in this environment, and their appreciation of the equality it has created. Much of this equality is attributed to the income equality generated through the 1:6 salary ratio, which used to be 1:3, which people believe have created a large middle-class and equality levels.

Miren describes the equality that she feels in the town of Mondragón, a place where she doesn’t feel any richer or any poorer than anyone else:

*“I know that I can go out for a glass of wine, or for dinner, and in the richest place I could find the poorest person and in the poorest place I could find the richest person. I mean poorest in the sense that I could meet someone who works on the production line in the richest place and likewise bump into the director general in the poorest place. There isn’t this separation between people, I don’t think. Everyone shares the same spaces and we all have access to the same spaces.”*

Mondragón’s spatial egalitarianism has also been commented on by other observers and noted to have deep roots: “The industrial and class character of Mondragón is reflected in its built environment. Architectural monuments of note are few relative to neighbouring towns... The industrial and proletarian character of Mondragón is at the heart of its local identity.”<sup>65</sup>

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65 Kasmir, S. (1996). *The Myth of Mondragon: Cooperatives, Politics, and Working-Class Life in a Basque Town*. New York: State University of New York Press.

Socioeconomic data also underpins these perceptions and experiences of life living in MONDRAGON’s epicentre. MONDRAGON has not only created changes in context but also had impact in meeting its vision.

MONDRAGON makes a broader and **significant contribution to economic productivity in the Basque Country** and, more widely, in Spain. For example, in 2010 MONDRAGON contributed 3.1%<sup>66</sup> of the total Basque Gross Domestic Product (GDP) and the group was also responsible for 7.5%<sup>67</sup> of all industrial production in the region in the same year. In 2014, MONDRAGON accounted for 11.6% of exports from the Basque Country.<sup>68</sup>

Providing employment to the people of the Basque Country has been an ongoing priority of MONDRAGON since its early days; it is a significant employer in the Basque Country specifically, as well as globally. MONDRAGON’s economic and financial indicators<sup>69</sup> show that in 2015 the group employed 32,841 people in the Basque Country. This indicates that MONDRAGON **employed around 3.7% of all employed people in the Basque Country in 2015**.<sup>70</sup> MONDRAGON is the **fourth largest employer in Spain as a whole, employing 62,800 people there in 2013/14**.<sup>71</sup>

The Basque Country has also enjoyed a lower unemployment rate than the rest of Spain for a number of years<sup>72</sup>, and the employment offered by MONDRAGON has made a contribution to this. Furthermore, the Gipuzkoa province, where MONDRAGON is based, has consistently displayed the lowest unemployment rates in the Basque Country.

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66 Source: EUSTAT dataset.

67 Ibid.

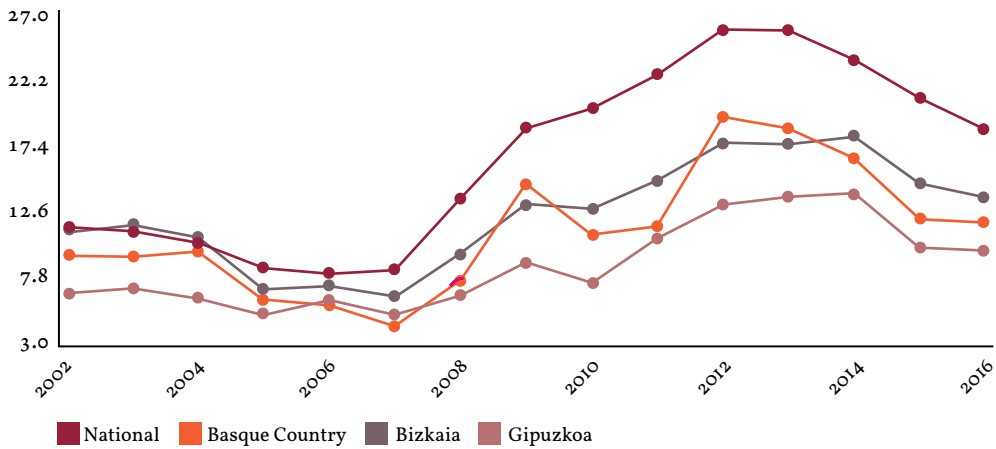
68 TULankide (2014).

69 MONDRAGON (2016) Economic and Financial Indicators (English): [www.mondragon-corporation.com/eng/about-us/economic-and-financial-indicators/employment-distribution/](http://www.mondragon-corporation.com/eng/about-us/economic-and-financial-indicators/employment-distribution/)

70 Source: Instituto Nacional de Estadística. The total number of people employed in the autonomous region of the Basque Country is given as 894,900 for Q4 of 2015.

71 TULankide (2014) RSC.

72 Source: Instituto Nacional de Estadística.

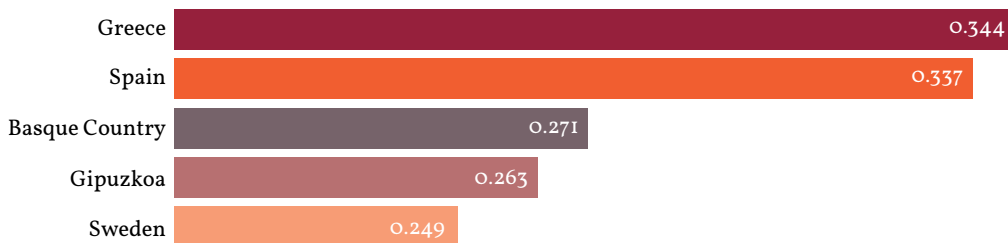


Poverty and inequality are also relatively low in the Basque Country, and there is evidence to suggest MONDRAGON are likely to have contributed to this. For example, **poverty rates** are lower in the Basque Country than the Spanish average<sup>73</sup> and **are particularly low where MONDRAGON co-operatives are concentrated**, in Mondragón and the surrounding area. In 2014, the absolute poverty rate in Alto Deba was 4.1%, compared to 5.9% in the Basque Country.

In addition, the Basque Country enjoys a far greater level of internal equality than the Spanish average. In the graph below, Sweden and Greece are taken as reference points for the most and least equal societies in Europe respectively. We can see that Spain demonstrates high levels of income inequality but that the Basque

Country and Gipuzkoa in particular are more equal, with an equality coefficient closer to Sweden's than to Spain's.

MONDRAGON is committed to egalitarian working practices and policies across the group. For example, the average salary ratio between highest and lowest paid employees/members in the co-operative is 1:6 and it rarely exceeds a salary ratio of 1:9. **By contrast, the average equivalent salary ratio for a FTSE100 company is 1:129.**<sup>74</sup> Although this is not a legal principle and has become more flexible in recent years – particularly in larger co-operatives – there is still a clear adherence to much narrower ratios than in other comparable business contexts. This suggests that MONDRAGON, as a significant employer, is **likely to have contributed to relatively low levels of inequality** in the Basque Country.



73 OECD Better Life Initiative dataset (most recent data on poverty level from this dataset is given as 2010).

74 High Pay Centre (2016), *10% Pay Rise? That'll Do Nicely*: <http://highpaycentre.org/pubs/10-pay-rise-thatll-donice>

The Basque Country appears to prioritise education and has frequently **demonstrated higher levels of educational attainment than the rest of Spain**. Basque autonomous governmental policy, for example, has made considerable strategic investments in its regional education system.<sup>75</sup> This commitment has been mirrored by MONDRAGON, which has emphasised education since its beginnings. It has also invested heavily in education, through initiatives such as funding Basque language schools and by building educational and training facilities which are accessible to all, not only co-operative members. In total, in 2013, MONDRAGON had 4,750 students studying at their university.<sup>76</sup>

A further way in which MONDRAGON is seen to contribute to the local economy is through its prioritisation of research and development activity (R&D) and knowledge generation and exchange. **Over the last three decades, Basque investment in R&D has risen from well below the national average, to being one of the highest regional investors in R&D.**<sup>77</sup> Furthermore, since 2011, R&D provided a greater percentage of overall employment in the Basque Country than in any region in Spain outside of Madrid. Basque regional expenditure on R&D has also increased at a greater rate than the European average over the last decade<sup>78</sup>. MONDRAGON has also increased investment in this field considerably over the same period. In 2014, the solidarity funds (FCI, FSC, FEPI and FRES) gave €40.1m to development activities and inter-co-operative support, training and R&D. For instance, from investing the equivalent of €10 million in R&D in 1987, MONDRAGON invested €153 million in 2015.<sup>79</sup> This is also reflected in its 15 R&D centres, growing number of patents, currently totalling 451, and trademarks.<sup>80</sup>

***The essential term is ‘co-operative business’, I mean that ‘business’ is a noun and ‘co-operative’ is an adjective.***

Koldo, 66, retired co-operative member

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75 Coughlan, S. (2016). *Basques reinvent themselves as education power*. BBC website, June 15<sup>th</sup>: [www.bbc.co.uk/news/business-36517928](http://www.bbc.co.uk/news/business-36517928)

76 MONDRAGON annual report 2015.

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77 del Castillo, J., J. Paton, and B. Barroeta (2017). 9. The Great Basque Competitive Transformation towards sustainable innovations. *Sustainable Innovation and Regional Development: Rethinking Innovative Milieus*, p. 189.

78 Eustat report: [http://en.eustat.eus/elementos/ele0011900/ti\\_RD\\_expenditure\\_over\\_GDP\\_in\\_the\\_Basque\\_Country\\_has\\_grown\\_faster\\_than\\_the\\_average\\_for\\_the\\_EU-28\\_countries\\_over\\_the\\_last\\_10\\_years\\_/not0011916\\_i.html#axzz4Y73giV3a](http://en.eustat.eus/elementos/ele0011900/ti_RD_expenditure_over_GDP_in_the_Basque_Country_has_grown_faster_than_the_average_for_the_EU-28_countries_over_the_last_10_years_/not0011916_i.html#axzz4Y73giV3a)

79 Mondragon website: [www.mondragon-corporation.com/eng/mondragon-in-2015-growth-in-jobs-turnover-and-earnings/](http://www.mondragon-corporation.com/eng/mondragon-in-2015-growth-in-jobs-turnover-and-earnings/)

80 MONDRAGON (2016) *Humanity at work*. Available at: [www.mondragon-corporation.com/wp-content/uploads/MONDRAGON-ING.pdf](http://www.mondragon-corporation.com/wp-content/uploads/MONDRAGON-ING.pdf)

## A complex model of a social innovation ecosystem

MONDRAGON is a very large ecosystem to attempt to understand, and this case study has only presented part of various different pictures.

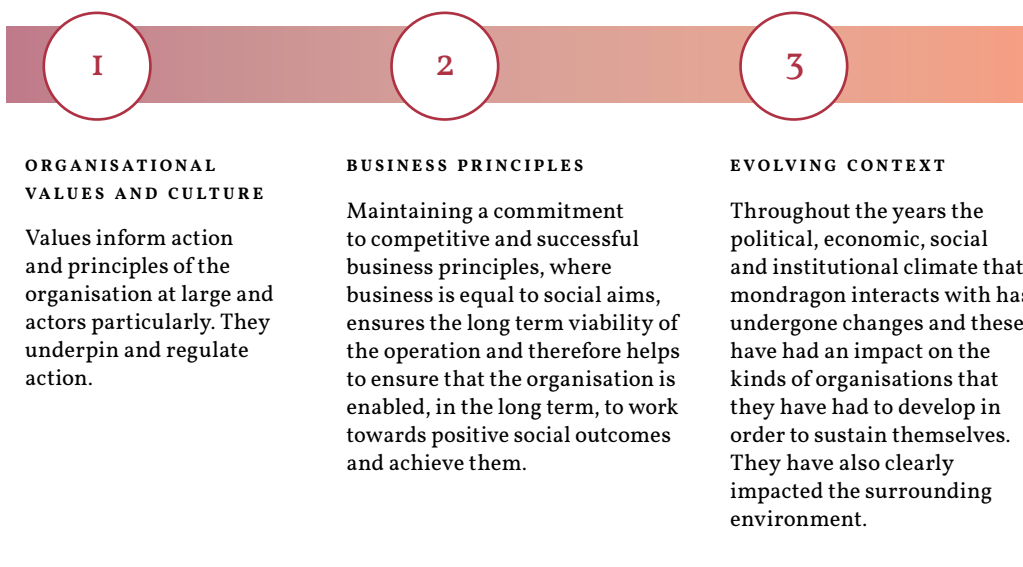
However, from what we do know, we suggest that if we start to look at all the evidence presented on MONDRAGON from a social innovation ecosystem perspective, we can start to draw certain links and conclusions about how MONDRAGON's ecosystem works and what supports it. We know, for example, that sustainability has been a central focus of the mission, and that the concepts of growth and success underpin its broader social mission, as they enable it.

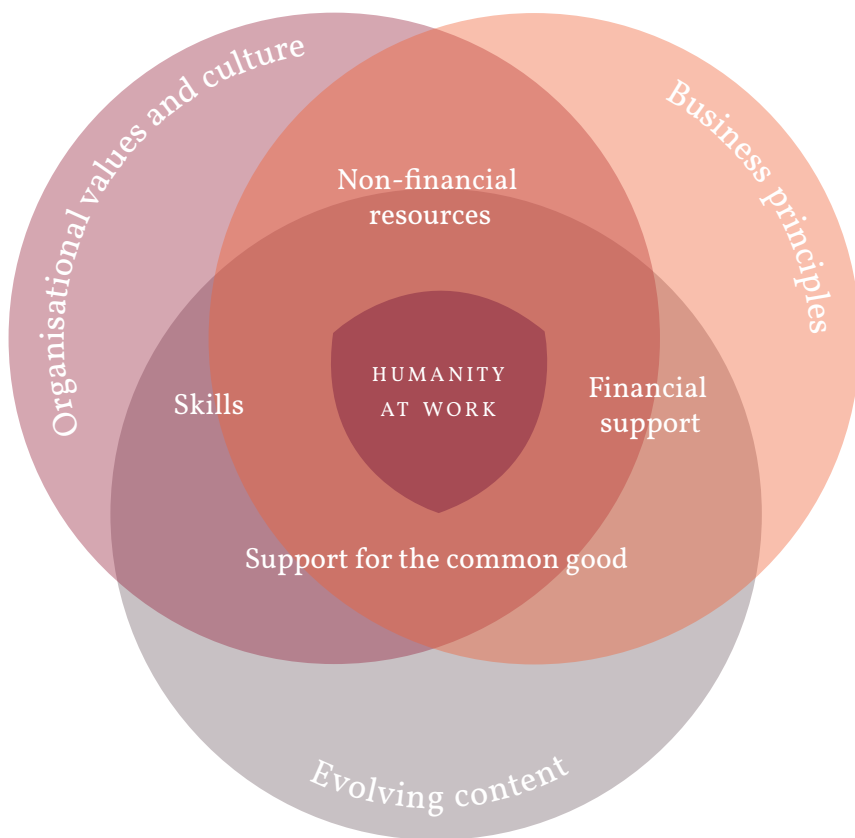
It looks likely that MONDRAGON's ecosystem functions by developing a model in which businesses and actions are facilitated through a complex web of support which ranges from the direct (financial resources) to the indirect (developing a positive context for change by working towards the common social good within their local community).

This support then builds the capacity of those businesses, through various mechanisms such as innovation, R&D, training and learning by doing, as well as generosity to others, which in turn feeds back into the supportive organisations which can then further build the businesses.

During the course of this study we have identified key areas of MONDRAGON's activity that perform a kind of supporting role to MONDRAGON's sustainability: skills, non-financial resources, support for the common good, and financial support.

As shown in the diagram below, these dimensions sit within an environment which is determined by the overlap of:





Within the MONDRAGON ecosystem we can then identify four distinct types of support that facilitate MONDRAGON's core mission.

These four areas are not distinct but instead feed one another in a highly complex web of interactions which come to facilitate the core innovation of MONDRAGON: the development of a competitive, and therefore sustainable, business model that is driven by organisational values and a culture which places a desire for positive social change at its heart. In line with members' descriptions, we refer to this as 'Humanity at Work'.

For example, MONDRAGON currently has eight different foundations through which it oversees contributions made to a wider community. These include: the MONDRAGON Foundation, the Ulma Foundation, Azaro, and Mundukide. The Errota Foundation is also a good example of the way in which MONDRAGON looks to work towards social-economic development beyond its members.





#### THE PROVISIONS OF FINANCIAL RESOURCES

Since the development of Caja Laboral, MONDRAGON has developed a number of financial mechanisms which create a sustainable way of funding the activities of the co-operatives. In addition to Caja Laboral and Lagun Aro other financial institutions have been set up, including co-operative solidarity funds. Through the provision of funding, and by extending financial services both to members and, in some cases, non-members these institutions offer a greater degree of financial stability to co-operatives, members and the wider community.



#### THE PROVISION OF NON-FINANCIAL RESOURCES

MONDRAGON has also developed a set of organisations that develop other resources. The enterprise department of Caja Laboral, for example, provides a kind of incubation for businesses looking to develop. Also, the Bilbao Berrikuntza Faktoria, the building which houses MTA, is a space dedicated to helping to develop new and innovative businesses.

In addition there are a number of organisations within MONDRAGON which have R&D&I functions or which can be considered to serve the wider organisation, including Saiolan, an innovation centre which supports the creation of new businesses, and IK4, a research alliance of several innovation units.



#### THE DEVELOPMENT OF SKILLS

MONDRAGON has always sought to nurture skills among both its members and the wider community. To this end they have invested in and developed institutions designed to promote skills which can, in turn, feed into the maintenance and progress of MONDRAGON's businesses. In addition because MONDRAGON's educational institutions are frequently open to people outside of the membership, this helps to build skills and spread the values of co-operation and solidarity beyond MONDRAGON, in turn serving a broader social good.



#### WORKING TOWARDS A COMMON GOOD

The articulated values of the community appear to be strong and MONDRAGON continues to make efforts to try and support the community, both members and non-members.

MONDRAGON has always had many initiatives that do not directly feed their own enterprises but where the benefits are more diffuse, more generalised and where positive benefits are intended for people well beyond their membership. Examples of this range from the development of schools, which are available for the community, to the Basque Culinary Centre, which along with providing training looks to use Gastronomy as a driver of socioeconomic development. As Miren, 56, says: *"I have to thank the co-operative because in my house, my brothers and I, we all had the opportunity to go into higher education, we all had access to university... I don't think we would have been able to without the co-operatives."* Evidently MONDRAGON continues to invest in and provide resources and opportunities which go beyond their own direct interests, to contribute to a broader common good. This does not negate the fact that this broader common good in turn is likely to nurture MONDRAGON as an organisation in line with the idea that such investment would 'repay itself'.

## Leveraging capital to have broad benefits

MONDRAGON is interesting because it is a competitive business which holds and commits to a set of social values which can be seen to be at the heart of its work. The innovation ecosystem that we describe above is enabled by the success of the wider business activities. These not only help to build an environment of prosperity but they also mean that the organisation can, through its co-operative model, leverage the capital, labour and skills necessary to further MONDRAGON's social and business aims and to adapt to a change economic context. **This is described by members as a social need: it is a responsibility to create good and effective business models.**

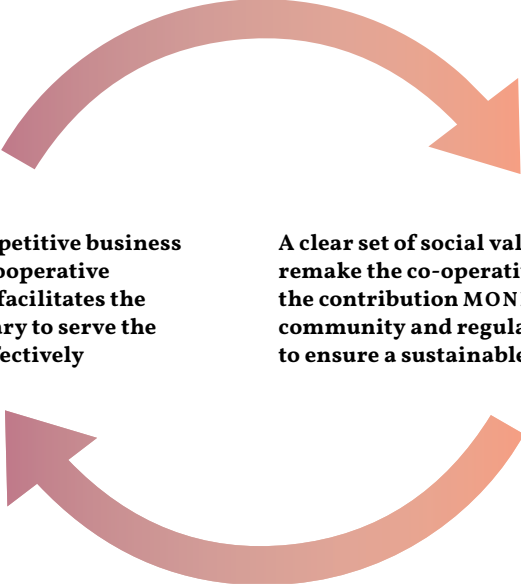
In this sense MONDRAGON exhibits a high level of self-sustainability and, through its co-operative model, has been able to develop both scale and diversity in its institutions.

Importantly this ecosystem model can be conceived of as being regulated by two distinct dimensions:

**It is key to understand that the co-operative model provides the crux of this ecosystem because it provides the democratic and participatory framework to ensure that resources can be leveraged to create adaptive capacity and underpins the ability of the organisation to adapt to the environment around it.**

**In particular it is the ability to leverage the power and resources of the people of MONDRAGON that has created the innovation ecosystem:**

*"The sign of vitality is not to endure but to be reborn and to be able to adapt."<sup>81</sup>*

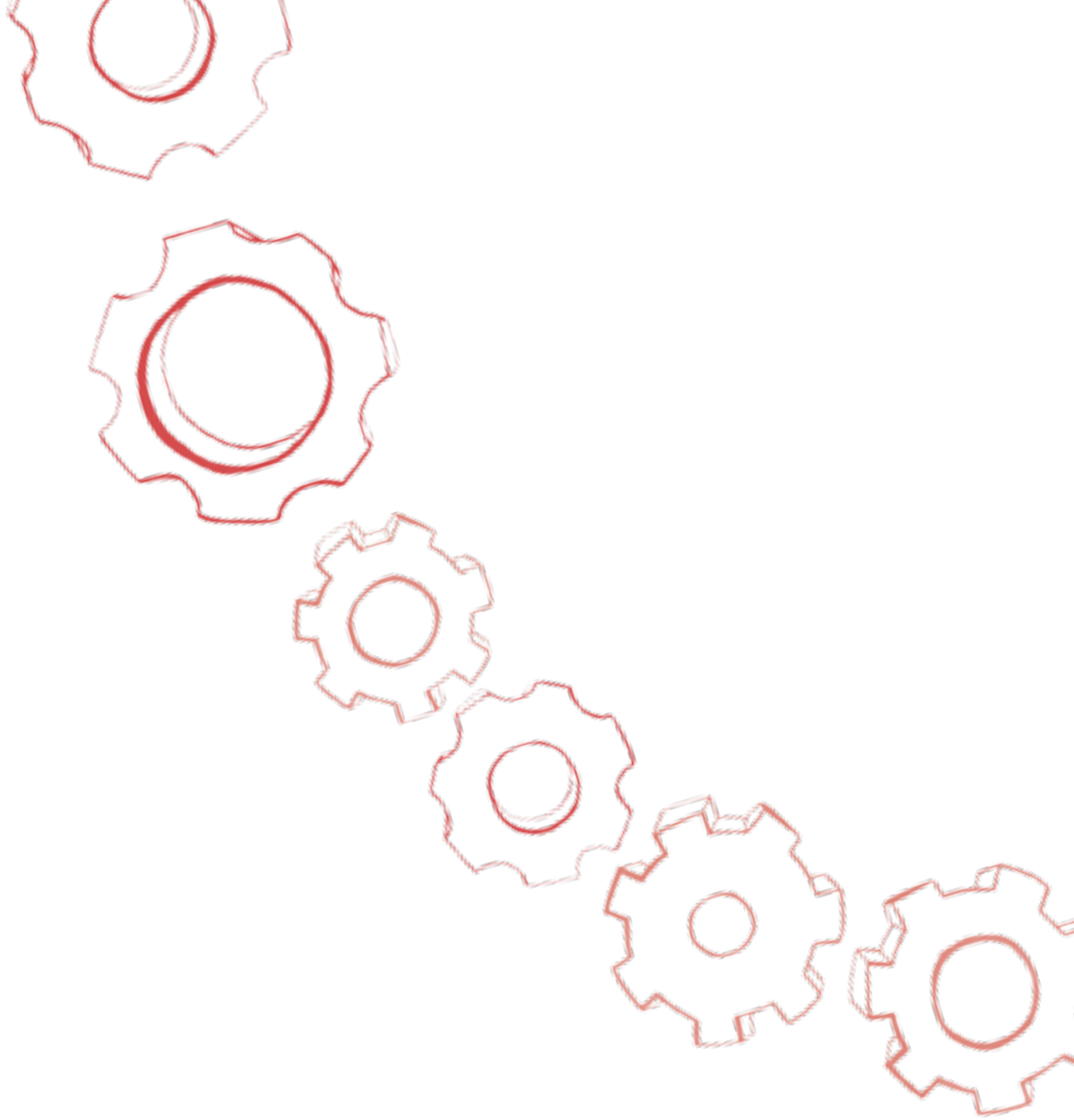


**A robust and competitive business model based on cooperative principles which facilitates the resources necessary to serve the social mission effectively**

**A clear set of social values which make and remake the co-operative model, help to define the contribution MONDRAGON makes to its community and regulate working practices to ensure a sustainable business model**

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<sup>81</sup> MONDRAGON (2015), *Arizmendiarieta 100: Reflections*. Available at [www.arizmendiarieta100.com/wp-content/uploads/2015/02/Reflections.pdf](http://www.arizmendiarieta100.com/wp-content/uploads/2015/02/Reflections.pdf).



CHAPTER 5

**Conclusions and  
their implications:  
MONDRAGON**

In this case study we have reviewed different types of evidence to help us understand the social nature of MONDRAGON as an organisation. While not exhaustive **it has looked to outline the key principles and elements that would help people to shape an understanding of this extraordinary organisation and what we can learn from it.**

We have reviewed different aspects of MONDRAGON, including its values and working practices, and its models of maintaining its own existence. We have touched on some key aspects of MONDRAGON's development and briefly on its contribution to the environment. We have however focused on considering this information through a social innovation lens to broaden the field and contribution of social innovation.

This has helped us understand it as a social innovation ecosystem. What we have not been able to do in this case study is approach in any detail the experiences people have had, and the history and type of growth, or make connections to what other socially-led innovations may have been taking place in the Basque Country at the time (or globally). Our research was limited to the experiences of people from different co-operatives in the Basque Country of which there are very many and this is not a representative case. It is clear that MONDRAGON believe that not every experience is the same, especially because there are so many different co-operatives and experiences in its family. This is why we have looked mainly at key features. We will be exploring this case further.

**However, we believe that this case study, as it stands, suggests several key elements that have been intrinsic to MONDRAGON's development and should be considered by anyone looking to work between organisations or between sectors, groups of people and community activists to create sustainable change with broad benefits.**

## **1. Competition and social innovation**

MONDRAGON shows us that being socially innovative, or doing social good, doesn't have to differ from achieving success or being competitive in a broader market. In fact, discussions with MONDRAGON members reveal that MONDRAGON believe that they are more competitive because they have social principles and practices that guide their work and mobilise them to do well. They also feel a responsibility to be successful in order to generate shared wealth and create social impact, and act accordingly.

This is intentional to the sustainability of the ecosystem: since its founding, those behind MONDRAGON have recognised that it would need to be successful and grow in order to fulfil its social mission effectively and create broader social contributions. This need to foster success to create social ends is a key feature of its social innovation narrative and helps us understand both why it is so important for MONDRAGON to be successful and how this is achieved.

This suggests why their social innovation features – the social values and practices that have been focused on in this case study – are not a peripheral element of their work. These practices are embedded and key to its decision making, allowing it to make decisions consistent with the needs of local populations and their values.

## **2. Wealth distribution and sharing underpins egalitarianism**

MONDRAGON also offers an example of how successful business can fairly distribute wealth amongst members.

MONDRAGON also helps us broaden our concept of what wealth and social impact are. **Effectively, MONDRAGON appears to have created a wealth of different kinds of capital - economic, social, and cultural - and distributed it widely, so that past, current and future generations can share in it.** This is driven by a consistent set of values about how to work together and the value of prioritising people, 'labour', over capital. The cooperative model has been a tool to underpin this.

### 3. Social values and commitments to place and territory in business are possible

MONDRAGON offers a clear example of how social and cultural values can be commensurable with the methods, means and modes people take to sustain their livelihoods in any region, and live well, unlike many traditional larger businesses.

This is interesting because in the past people have suggested that it might be possible to develop a model of working in which a responsibility to communities is not placed as secondary to business principles, but rather is held as equal or more important to it. Some would argue that a shared value model<sup>82</sup> takes this kind of approach.

However, critics of shared value models see it as an ideal type which often does not explore the question of what happens if and when there is a necessary play off between the economic and the social. MONDRAGON, which goes far beyond a model of 'corporate social responsibility' in making business a way of enabling social goods, deepens our understanding of how the economic can be wielded by people in order to enable the socially positive in places.

### 4. People must and can work together to create sustainable change

MONDRAGON represents a largescale approach to solving social issues for common good. Interestingly our case study shows that the principle of working together in inter-co-operation is key to MONDRAGON's size and impact. This has been achieved by different people, constituent parts and features all working together. And today MONDRAGON members clearly state that they feel part of an experience, which mobilises them to action and participation.

In doing so MONDRAGON's example questions and challenges the myth that only specific people, policy-makers or individual entrepreneurs make change happen on their own<sup>85</sup>. MONDRAGON's ecosystem case suggests that it is possible for everyone to be innovative or create change if the right conditions are created for them to participate effectively. At MONDRAGON it is expected that everybody be involved in innovation. Fundamentally members consider themselves protagonists driving this action for common good.

### 5. New attempts to work together should involve new methodologies which increase social participation

MONDRAGON, unlike some other innovations, or social movements, has never been co-opted or become mainstream. It represents a specific cultural experience and context, as we have outlined in this case study.

However, it does not mean that it is not possible to learn from this case study to help us better understand how social innovation ecosystems work or to look to different societies, especially those which are more equal, to see them as ecosystems of equality and learn from them. MONDRAGON, because of its explicit values, helps us understand how socially driven values should be intrinsic to other organizations and places who wish to foster fair and truly socioeconomically transformative processes which have social benefits incorporating large-scale and globally competitive business models.

**The MONDRAGON case study also tells us that social innovation practices should incorporate the idea that people can make change happen together, whatever their backgrounds, and develop new tools which facilitate this participation.**

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82 Porter, Michael, (2011). "Creating Shared Value", *Harvard Business Review*; Porter, M. and Kramer, m. (2002). The Competitive Advantage of Corporate Philanthropy, *Harvard Business Review*, 80(12): 56–69.

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83 The Entrepreneurial State. Mazzucato, M.

## 6. Sustainable ecosystems must wield sustainable tools

MONDRAGON, as we have noted, has achieved its growth and impact in the context of a lack of resources. Protagonists, as they call themselves, realised early on that their way of working must be sustainable, and diversified, as well as requiring complementary enabling institutions to underpin growth and legitimacy.

Most treatments of ecosystems or large scale egalitarian societies fail to explain or solve the need for sustainability without major external inputs and assistance such as funding or capacity development. However, MONDRAGON **shows how it may be possible, through labour sovereignty and through wielding wealth and capital as an instrument of equality rather than an instrument of inequality, to create a sustainable and successful ecosystem with broad social benefit.**

*One of our characteristics has been the practical sense of knowing how to act in a field of possibilities without renouncing our ideals. It has been possible to unite and take advantage of the opportunities that are in the common interest.*

Excerpt from Arizmendiarrieta's concept of the MONDRAGON experience<sup>86</sup>

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84 MONDRAGON (2015) Arizmendiarrieta 100, Reflections: [www.arizmendiarrieta100.com/en/reflections/](http://www.arizmendiarrieta100.com/en/reflections/)

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