

# Is the Mondragón Co-operative Experience a Cultural Exception? The Application of the Mondragón Model in Valencia and Beyond

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It has frequently been presumed that the ability of the Mondragón group of co-operatives to achieve a remarkable degree of trust and loyalty amongst its members while maintaining relatively bureaucratic workplaces is due to the uniquely solidaristic traits of Basque culture, implying that the same feat will be unattainable amidst less favourable cultural milieus. This article argues that, on the contrary, Mondragón's organisational culture is embedded in its organisational structures — such as its systems of governance, education, ownership, remuneration, and inter-co-operation — and should therefore be widely applicable, even if not identically replicable, in other regions. To this effect, the article provides evidence that the key features of 'the Mondragón Model' have indeed been emulated elsewhere — namely in Valencia and the United States — and moreover has significant parallels around the world.

## Introduction

The Mondragón group of co-operatives in the Basque Country (hereafter 'Mondragón') appears to have achieved a rare combination of trust and loyalty on the one hand and bureaucratic workplaces on the other, thus allowing it to prosper in large-scale manufacturing sectors wherein co-operatives are relatively scarce. This peculiarity is often attributed to the uniquely solidaristic traits of Basque culture, implying that the most celebrated example of worker cooperativism in the world is a cultural exception with limited applicability to other regions. The present article disputes such a fatalistic assessment. First, it contends that Mondragón's organisational culture, far from merely reflecting Basque ethnic culture, is in fact sustained by its organisational structures, particularly its systems of governance, ownership, remuneration, education, and inter-co-operation. Second, it demonstrates that these organisational structures, and the organisational culture that they embody, have been emulated elsewhere (namely Valencia and the United States) and moreover have significant parallels around the world (such as in Italy, Colombia, India, and Poland).

## The Mondragón Co-operative Experience

### The peculiarity of Mondragón

Mondragón is the largest group of worker co-operatives and probably the most widely celebrated co-operative experience in the world. It is unusual, however, in that whereas the vast majority of large co-operatives are concentrated in agriculture and services (especially finance, social services, retail, and utilities), Mondragón has operated primarily in the industrial sector since its inception in a paraffin stove factory. Indeed, of the three-hundred largest co-operative and mutual organisations in the world by turnover in 2011, only two operated in the industrial sector, of which Mondragón was by far the largest with a turnover of 19.22 billion dollars — almost ten times that of the next-largest industrial co-operative, the Italian Ccc construction firm<sup>1</sup> (World Co-operative Monitor, 2013: 57–71). Related to this sectorial irregularity, Mondragón is also unusual in the extent to which it has adopted relatively bureaucratic workplaces, featuring complex divisions of labour and hierarchical management systems — organisational structures that are normally associated with capitalist firms (Kasmir, 1996: 181–4; Morrison, 1991: 80; Whyte and Whyte, 1988: 134, 279).

Despite its apparent peculiarity, however, Mondragón has not only managed to compete with its non-co-operative rivals, but has in fact excelled, achieving significantly higher-than-average

levels of labour productivity (Levin, 1983; Thomas and Logan, 1982: 108), exhibiting significantly higher-quality management than nearby capitalist firms in overlapping sectors (Abando et al, 2007), and receiving numerous accolades, such as the Financial Times' 'Boldness in Business' Award in 2013. A proximate cause of Mondragón's success seems to be that it has managed to combine its bureaucratic workplaces with an exceptional degree of trust and loyalty — a rare combination given that the former tend to inhibit the latter (see Thompson, forthcoming). Indeed, in surveys conducted by Bradley and Gelb (1981), members of Mondragón co-operatives reported significantly higher levels of trust and loyalty than workers in nearby capitalist firms with similar divisions of labour and management systems, even to the point of monitoring their peers.

Now, it could be argued that Bradley and Gelb's surveys paint an incomplete and even inaccurate picture of Mondragón, which has certainly experienced the sort of tensions that tend to accompany workplace bureaucracy (Cheney, 1999; Heras-Saizarbitoria, 2014; Kasmir, 1996), especially when coupled with industrial democracy, which increases the salience of participation (Greenwood and Gonzalez Santos, 1992). Furthermore, Mondragón has undergone a number of important changes since Bradley and Gelb published their findings in 1981, including a massive process of corporate restructuring that may have increased bureaucracy on the supra-firm level (Bakaikoa et al, 2004; Morrison, 1991: 201–2; Whyte and Whyte, 1988: 64–5). Arguably, however, workplace tensions peaked back in 1974, when a group of workers in Ulgor, the original Mondragón co-operative, organised Mondragón's only ever strike in protest against what they perceived to be degrading work conditions and an autocratic management system (Whyte and Whyte, 1988: chapter 9). In 1981, when Bradley and Gelb's surveys were published, the underlying causes and frictional aftermath of this incident were still in full effect (Whyte and Whyte, 1988: chapters 10–11). Unless Bradley and Gelb's surveys can be discredited on a methodological level (see Kasmir, 1996: 162), it would therefore appear that achieving trust and loyalty "is not about the eradication of difference and conflict" (Greenwood and Gonzalez Santos, 1992: 1), meaning that the existence of workplace tensions does not necessarily indicate a lack of trust and loyalty.

## **The culturalist explanation for Mondragón's success**

To the extent that Mondragón has managed to achieve a remarkable level of trust and loyalty despite maintaining bureaucratic workplaces, numerous observers have attributed this feat to a uniquely solidaristic ethnic culture in which "social distinctions are minimised at work, in public affairs, and even in interpersonal relations" (Whyte and Whyte, 1988: 12; eg Hansmann, 1996, chapter 2; Logan, 1979; Campbell et al, 1977). For example, the Basques espouse a consensual leadership style and tend not to view manual labour as inferior to professional work (see Morrison, 1991: 67–70). Particularly noted are traditions such as the *chiquiteo*, whereby groups of men comprising both workers and managers travel from bar to bar at the end of the working day, socialising and discussing work-related issues. Indeed, Mondragón's pioneers utilised the *chiquiteo* to disseminate information and raise funds for the first co-operatives (Whyte and Whyte, 1988: 34).

For at least two reasons, however, this culturalist perspective fails to explain the trust and loyalty observed in Mondragón. The first reason is that the cultural traits supposedly responsible for Mondragón's success are not exclusive to Basque culture. That is not to say that Basque culture is not unique — the Basques are an ancient ethnic group with distinct customs and traditions, in addition to an unusual language famous for its mysterious origins. Furthermore, the Basque Country is unusually situated as a nation within two states (Spain and France), geographically delineated by mountains and ocean. However, virtually every ethnic group, region, or country possesses some sort of shared history and identity that defines them as a people, and that may therefore be propitious to Mondragón-style organisation (Morrison, 1991: 67). This is reflected in the fact that Mondragón itself has traditionally included a significant proportion of non-Basque worker-members (about 25% in 1988, according to Whyte and Whyte (1988: 271)).

The second issue with the culturalist perspective is that, contrary to the claim that it has remained constant “for hundreds and thousands of years” (Hofstede 2001: 13), Basque culture has fluctuated over time. To be sure, there are factors in Basque history that endorse the idea of Basque solidarism, including the retention of traditional institutions such as guilds, neighbourhood associations, and democratic local governments long after they had vanished elsewhere in Spain (Whyte and Whyte, 1988: chapter 2). Indeed, co-operativism long been a feature of Basque society, and Arizmendiarieta himself maintained contact with a co-operative sewing machine manufacturer in the nearby town of Eibar (Morrison, 1991: 70–1). However, there have also been periods in history when Basque culture deviated from its stereotypical characterisation (Otazu, 1986). For example, during a series of Spanish civil wars in the 1800s known as the Carlist Wars, “iron ore, once communally owned, became private property; artisan industry gave way to mills and factory production; and tensions between capitalists and workers grew” as a class of “merchant bankers” emerged to control the bulk of the region’s financial and industrial resources (Morrison 1991: 39). “Strong and militant unions” arose to counter this dominance, while “members of skilled crafts and professions struggled to maintain their values of equality and democracy within their occupational associations” (Whyte and Whyte, 1988: 11–2). Indeed, the town of Mondragón was a hotbed of class conflict even at the time that the co-operatives were formed (Kasimir, 1996). Although agricultural collectivism was common, it featured little in the way of trust and loyalty (Morrison, 1991: 68), and Arizmendiarieta himself lamented what he perceived to be the growing individualism of Basque culture (Whyte and Whyte, 1988: 259, 281).

### **Organisational culture and organisational structures**

How, then, can we account for the levels of trust and loyalty observed in Mondragón? The answer, I submit, is that Mondragón has “created a distinctive *organisational culture*”, which has “selected from among the elements of Basque culture”, “reinforc[ing]” certain elements and even “creat[ing] other elements that are not present (or at least not prominent)” (Whyte and Whyte, 1988: 281, emphasis in original). This appears to be confirmed by the fact that, although most of the co-operative members interviewed by Greenwood and Gonzalez Santos (1992) joined merely with the intention of securing a job rather than “out of a commitment to co-operativism, many members stated that, once inside for a period of time, they became convinced of the value of the co-operative idea” (Greenwood and Gonzales Santos 1992: 156). Indeed, much of Mondragón’s organisational culture stems from Arizmendiarieta’s thinking, which was influenced by a range of sources in addition to Basque culture — including Catholic social doctrine, humanist philosophy, and socialist theory — and which is preserved in Mondragón’s official set of ten ‘principles’ (Azurmendi, 1985; MacLeod, 2000: chapter 3; Mondragón Corporation, no date). These principles are based on and tied together by the informal but overarching principle of ‘equilibrio’, which refers to “balancing economic and technological imperatives with social values and objectives”, the former “driven by” the latter (MacLeod, 2000: 37; see also Whyte and Blasi, 1982) — an ideal recipe for attaining trust and loyalty while maintaining bureaucratic workplaces.

Acknowledging the importance of his ideas, some authors have identified the exceptionally inspired and exceptionally inspirational figure of Arizmendiarieta as an inimitable factor in Mondragón’s success (eg Campbell et al, 1977). In fact, however, Mondragón’s organisational culture — including its ten ‘principles’ — is embedded in a range of organisational structures that counteract the potentially adverse behavioural effects of bureaucratic workplaces (Greenwood and Gonzalez Santos, 1992: 141–9). Indeed, Arizmendiarieta himself helped devise these structures under the express conviction that the solidaristic traits of Basque culture, while superlatively amenable to co-operative ideals, had to be not only “interpret[ed]” appropriately, but also “give[n] ... an expression and well-defined materialisation, translatable into institutions or concrete entities around which to galvanise an effort, to justify a dedication” (Azurmendi, 1999: 208-9, translation Thompson; see also Forcadell Martínez, 2000; Herrera, 2004; Whyte and Whyte, 1988: 256).

A particularly relevant principle in this regard is that of 'formación', which refers to education for the purpose of individual and collective development, beyond and broader than the minimum amount of technical training required for production (Whyte and Whyte, 1988: 256). Arizmendiarieta believed that formación was crucial to the successful functioning of a co-operative, going so far as to aver: "The co-operative movement is an economic effort that is translated into an educational action, or it is an educational effort that uses economic action as a vehicle of transformation" (Azurmendi, 1999: 182, translation Thompson). Mondragón continues to regard formación as "the basic ... principle that feeds and feeds off all the others" (Mondragón Corporation, 2012: 17–8). Besides being ingrained in a host of institutions that have provided education, training, and 'socialisation' for worker-members ever since Arizmendiarieta initiated the Mondragón co-operative experience with the creation of a technical college, the principle of formación is also applied to managers, with a number of managerial training centres purporting to 'form' managers who are not only skilled but also co-operatively-minded (Whyte and Whyte, 1988: 44, 217; Meek and Woodworth, 1990; Basterretxea and Albizu, 1991; Basterretxea and Albizu, 2010; Basterretxea and Albizu, 2011) — an objective that Arizmendiarieta emphasised (Azurmendi, 1999: 187).

Also insightful are the principles of 'democratic organisation' and 'participation in management', which stem from Arizmendiarieta's belief that although complex divisions of labour and hierarchical management systems are required for advanced technologies — a reality that he felt traditional co-operatives had dogmatically rejected to their detriment — they should be embraced as servants, rather than masters, of worker-owners (Azurmendi, 1985: 421; MacLeod, 2000: 70–4, 84–7; Whyte and Whyte, 1988: 253, 257). These principles are grounded in Mondragón's system of democratic governance, whereby members participate on a one-vote-per-member basis in a General Assembly. The Assembly periodically elects a Governing Council, which appoints managers who are in turn accountable to the Assembly and additionally overseen by a Watchdog Council. Complementing the Governing Councils and General Assemblies, which primarily represent the interests of members as owners by dealing with strategic issues like expansion and investment, are the Social Councils — elected bodies akin to unions that represent the interests of members as workers by addressing issues like wages, worker-manager relations, and working conditions (Whyte and Whyte, 1988: 39–41, 230–1).

A related set of principles, namely the 'sovereignty of labour' and the 'instrumental and subordinate nature of capital', stem from Arizmendiarieta's vision of a "person centered economics" in which capital accumulation was a necessary means for advanced industrial production rather than an end in itself (MacLeod, 2000: 38–44, 58–64; see also Azurmendi, 1985; Azurmendi, 1999). These principles are rooted in Mondragón's ownership system, in which net earnings (beneficios, akin to profits) are distributed into various collective and indivisible reserve funds according to pre-determined percentages before the remainder is deposited into members' 'individual capital accounts', which are only redeemable upon retirement and can be voluntarily reduced to increase reinvestment and thus preserve employment (Whyte and Whyte, 1988: 42–5). A similar principle in this vein is that of 'solidarity in payment', whereby wages — or anticipos, which members receive in addition to the interest on their capital accounts, set according to projected earnings — are subject to maximum differentials between the highest- and lowest-paid members. Although some co-operatives have chosen to widen these differentials from the original 3:1 ratio to as high as 10:1, the average ratio remains approximately 5:1, which generally results in higher wages for low-level workers and lower wages for high-level workers than in conventional firms operating in the same sectors (Herrera, 2004: 7).

In an alternative to the culturalist explanation, some authors have acknowledged that Mondragón's organisational structures, while important, were only possible thanks to an exceptionally propitious institutional environment. They point, for example, to the Basque Country's extreme isolation following the Civil War, which may have shielded the group from competitive pressures (Campbell et al, 1977), and a relatively inflexible labour market, which may have encouraged workers to tie up their wealth in a single firm (Bradley and Gelb, 1982).

While it is true mainstream institutions are generally biased against co-operatives (eg Elster, 1989; Pagano and Rowthorn, 1996; Putterman, 1982) — a reality that Arizmendiarieta comprehended (Azurmendi, 1999: 213-4) — Mondragón has effectively *created* an institutional environment conducive to co-operative organisation through its group system, which embodies its principle of ‘inter-co-operation’.

Co-operatives within the group are associated into a superordinate entity (originally the co-operative bank, the Caja Laboral Popular, and today the Mondragón Corporation and its sovereign body, the Co-operative Congress), further organised into sub-groups (originally based on region and today based on sector), and served by purpose-built ‘second-tier’ co-operatives (‘co-operatives of co-operatives’ governed by representatives from their associated ‘first-tier’ co-operatives in addition to their own staff) (see Turnbull, 1995). This system affords member co-operatives access to services that would otherwise be unavailable, such as finance, consultancy, and managerial training, and facilitates coordination between them, for instance through the redistribution of personnel and finance and the organisation of joint investments and R&D within markets and supply chains. The División Empresarial (‘Entrepreneurial’ or ‘Business’ Division) — initially part of the Caja Laboral Popular and subsequently an autonomous co-operative called LKS — was originally the central ‘brain’ of the group system, although many of its responsibilities have gradually been transferred to other institutions (Ellerman, 1982, 1984). The group system is particularly valuable for initiating and fostering new co-operatives and especially shines during recessions, during which Mondragón has repeatedly outperformed the rest of the economy — not only has it maintained remarkably low levels of business failure (eg Ormazabal, 2013), but, as the recent collapse of the enormous Fagor Electrodomésticos demonstrated, it has also managed to minimise redundancies when its co-operatives do fail, through either relocations or the creation of new business units (Chávarri, 2014).

A final principle to note is that of ‘social transformation’. Since its inception, Mondragón has deliberately sought to positively influence Basque society, for instance through the creation of meaningful and stable employment (Smith, 2003) and the preservation of Basque language and culture (Whyte and Whyte, 1988: 9, 17, 86). This approach reflects Arizmendiarieta’s insistence that “the co-operative movement will be a passing phenomenon so long as it is not projected and developed in the social surroundings with its consequent rooting in the sphere of ... social and economic relations” (Azurmendi, 1999: 214, translation mine) and his belief that the firm “is predominant in moulding the fabric of society not only on the economic level, but also on the social, political, and cultural levels”, even to the point of replacing the family as the basic unit of society in the modern industrial age (MacLeod, 2000: 55; see also Azurmendi, 1985: 411–2). The principle of social transformation brings us full circle in our discussion of culturalist perspectives on Mondragón, for it shows that, as Carole Pateman (1970) famously postulated in relation to industrial democracy, the causation between organisational culture and culture broadly conceived cannot be assumed to run only from the latter to the former (see Lizarralde 2009). This must be especially true given the vastness of the Mondragón group (Morrison, 1991: 195): with approximately 33,000 worker-owners in the Basque country, it accounts for 3.5% of the Basque Country’s employment and 3.2% of its GDP, including 8.4% of employment and 7.4% of GDP in the industrial sector (Quigley, 2014; TU Lankide, 2013).

## The Applicability of the Mondragón Model

Whyte and Whyte (1988: 270) astutely point out that

[w]ere the Basque culture the primary basis for the creation and development of the Mondragón co-operative complex, then the practical implications to be drawn from Mondragón for other societies would be extremely limited.

Indeed, observers assuming a culturalist perspective on Mondragón have tended to reach precisely this conclusion (eg Hansmann, 1996: chapter 6; Campbell et al, 1977; Thomas and Logan, 1982: chapter 8). Gregory and Logan (1982), meanwhile, suggest that Wales may be

an eligible candidate for emulating Mondragón, but only because of its cultural similarities. However, if Mondragón's organisational culture is in fact a product of its organisational structures, as I have argued, then the "pre-existing idiosyncratic cultural features [of the Basque Country] are not necessarily essential to the success of [Mondragón-style] co-operatives" (Greenwood and Gonzalez Santos, 1992: 154). Rather, the 'Mondragón model' — defined by the principles and structures described in the previous section — should be applicable in other cultural milieus. Indeed, Mondragón has had a global influence; in 1988, Whyte and Whyte (1988: 282) stated that "[t]he attempts to derive practical lessons from Mondragón are already so numerous in so many countries that it is impossible to provide a comprehensive overview".

## **The Co-operative Business Group of Valencia**

The most ambitious attempt to systematically imitate the Mondragón model outside the Basque Country was undertaken in another Autonomous Community within Spain, namely Valencia, by the Grup Empresarial Cooperatiu Valencia (GECV, or Cooperative Business Group of Valencia; henceforth 'the Group'). Although there are some significant overlaps between Basque and Valencian culture — such as a longstanding tradition of democratic institutions (Alonso Pérez, 1991) and a regional identity tied to a unique language (Alba Benaches, 2006: 91; MacLeod, 2000: 99) — in personal interviews both Josep María Soriano Bessó (the leader of the Group) and Emili Villaescusa (president of CONCOVAL, the Confederation of Valencian Cooperatives) opined that the primary difference between the two experiences was that Basque culture contained a strong ethnic identity and tradition of co-operation that permeated all aspects of social life, in contrast to Valencia's relatively individualistic culture. In her history of the Valencian co-operative movement, Alba Benaches (2006: 93, 118-9) confirms that Valencia's predominantly agricultural society was pervaded by a "proverbial individualism".

It was amidst this inauspicious cultural setting that three dedicated members of Juventud de Acción Rural Católica (JARC, or Rural Catholic Action Youth), along with business professor, founded the Cooperativa de Viviendas Populares ('Covipo', or People's Housing Cooperative) in 1969 in an attempt to address the region's chronic shortage of housing and jobs that had resulted from the ruinous economic policies of the Franco dictatorship (Martínez Verdú, 1993: 25-9, 51-2). After the co-operative expanded to comprise almost one thousand members within a year of its formation, the Covipo pioneers, who had thus far worked as unpaid volunteers, began to contemplate the possibility of committing full time to a more wide-ranging co-operative project (Martínez Verdú, 1993: 37). In search of inspiration, the Covipo pioneers decided to travel to Mondragón, with which they were vaguely familiar, to observe its co-operatives and meet its founder (CIDEA, 2007: 69). The trip made a lasting impression, and in an interview, Soriano Bessó identified six key principles that together constituted what he called "the Mondragonian spirit": the formación of members; the professionalisation of management; the creation of "community wealth"; the reinvestment of surpluses; inter-co-operation between co-operatives of different sectors; and the invention of a mixed consumer/worker co-operative, Eroski (see also Alba Benaches, 2006: 88).

As we have seen, the first two of these principles — formación and managerial professionalisation — had formed the bedrock of Arizmendiarieta's philosophy and the origin of the Mondragón experience. Between 1973 and 1975, the Covipo pioneers used these same principles as the starting point for their own co-operative group through the creation of four agricultural schools in the rural comarcas (districts) of Valencia (Alba Benaches, 2006: 251; Martínez Verdú, 1993: 40). Although the schools were seen as subversive and consequently struggled with a lack of skilled teachers and administrators, one of them became a focal point of the local progressivist movement, eventually spawning an important agricultural syndicate (Martínez Verdú, 1993: 43, 142-3). In conjunction with the agricultural schools, the Covipo pioneers also experimented with two agricultural groups, which purported to address the chronic problem of minifundismo — the persistence of inefficiently small plot sizes due to diffuse land ownership — through the sharing of resources like fertiliser, pesticides, and greenhouses between farm units (Martínez Verdú, 1993: 46-7). Both groups failed, however, the first (Grupo

Taronger) due to the refusal of Valencian farmers to co-operate and the second (Grupo Agrícola) due to insufficient finance and expertise, as well as the fact that the emerging agricultural syndicate, which the Covipo pioneers had ironically been involved in creating, competed for the loyalty of farmers. The Covipo pioneers thenceforth turned their attention to the secondary and tertiary sectors, and in 1976 created the polytechnic school Florida. Like Mondragón's own polytechnic, Florida is today an award-winning university, regularly collaborating with research centres in Mondragón and preserving the "Mondragonian spirit" in its slogan "formación, golden rule of co-operativism" (Alba Benaches, 2006: 98–9).

In the same year, the Covipo pioneers enacted three other principles garnered from the trip to Mondragón — the creation of "community wealth", the reinvestment of surpluses, and inter-co-operation between different sectors — through the creation of Coinser, which purported to provide consultancy services to Valencian co-operatives (CIDECA, 2007: 69; GECV, 1988: 21, 61–4; Martínez Verdú, 1993: 55–6, 76–83, 123). Coinser's internal 'credit section', which serviced Covipo's housing groups and enabled redistribution between them, was eventually replaced by the Caixa Popular, a co-operative bank designed according to Mondragón's Caja Laboral Popular, comprising a mixed membership of bank staff and representatives from associated co-operatives and divided into a Banking Division and a Business/Entrepreneurial Division. Like Mondragón's Caja, moreover, the Caixa would not only provide the Group's associated co-operatives with financial, technical, and educational services, but would also coordinate their investments, personnel, and supply chains and act as a representative umbrella for its members (GECV, 1988: 56–61; GECV, 2000: 5, 8; Martínez Verdú, 1993: 64–5, 79–85, 121). In return, member co-operatives would each sign a "contract of association" obliging them to contribute a percentage of their net earnings to the Caixa and to abide by the Group's principles, which directly corresponded to those of Mondragón (GECV, 1988: 67–70).

The Group expanded at a vertiginous rate following the creation of the Caixa, beginning later in 1976 with the formation of the consumer co-operative Consum, modelled on the Eroski co-operative that had been one of the six stand-out components of the 'Mondragonian spirit' identified by the Covipo pioneers (GECV, 1988: 7; MacLeod, 2000: 102–5; Martínez Verdú, 1993: 59–60). Eroski broke with the traditional model of consumer co-operativism by including workers as members in addition to consumers and by adhering to a unitary structure composed of a single co-operative with multiple branches as opposed to a federation of autonomous co-operatives. Consum merged with Eroski in 1990 but split in 2004, instead maintaining a strategic alliance (Emili Villaescusa, personal interview). Today, it is a leader in the Valencian supermarket industry, competing neck-and-neck with its capitalist rival, Mercadona.

In the same year as opening the Caixa and Consum, the Covipo pioneers formed the women's co-operative Covamur (Cooperativa Valenciana de Mujeres, or Valencian Women's Cooperative) in an attempt to redress the earlier failure of a similar experiment. Modelled on Mondragón's Auzo-Lagun co-operative, Covamur purported to integrate women (especially the wives of male worker-members) into the workforce by meeting the cleaning and catering needs of Group's co-operatives (Martínez Verdú, 1993: 64–5). However, while the Group was not large enough to generate sufficient demand for its services, Covamur was not competitive enough to face the open market. Furthermore, part-time workers in the co-operative would not be covered by social security. Covamur was therefore dissolved after only a brief period of operation. Impelled by Covamur's failure and inspired by Mondragón's Lagun-Aro welfare co-operative, the Covipo pioneers created an internal mutual, the Mutua Popular, which would provide the Group's associated co-operatives with social services that were not covered by the state system in return for a percentage of each member's salary (Martínez Verdú, 1993: 69–70, 87–93). The Mutua Popular struggled due to a lack of commitment from members, and was eventually made redundant by a reform in the national system. After it dissolved, however, the insurance activities organised by the Caixa were transferred to an independent co-operative, Assecoop, which offered more favourable terms to co-operatives than mainstream suppliers (GECV, 1988: 26). The Group would later create an organisation to provide domestic services to elderly people (Comismar), but it was not financially sustainable and was soon closed (MacLeod, 2000: 109; personal correspondence).

Another area in which the Group experimented was the creation of manufacturing co-operatives. Although the Covipo pioneers had enjoyed scant success in the industrial sector in previous years due to an inability to attract skilled workers and managers, they experienced a breakthrough in 1975 with the formation of the glass-making co-operative La Mediterranea (Martínez Verdú, 1993: 63, 93–6). The co-operative underwent a difficult and protracted gestation period, but through the Group's oversight eventually absorbed two other glass-making co-operatives in the municipality of L'Olleria to form the largest worker co-operative in Valencia. La Mediterranea continues to be a major player in the Valencian glass industry and has made L'Olleria famous for its glass products (Alba Benaches, 2006: 96). La Mediterranea's success prompted the Group to admit several other manufacturing co-operatives, and, in 1981, to form sectorial sub-groups akin to those found in Mondragón (Martínez Verdú, 1993: 55, 94–8). Sub-groups were proposed in several sectors — including furniture, construction, foodstuffs, and exports — but were generally unsuccessful due to the reluctance of individual co-operatives to sacrifice autonomy, invest in joint projects, or share resources. Although the Group subsequently turned to a regional sub-group strategy, which Mondragón had implemented earlier in its history, this proposal suffered the same fate as the sectorial system.

The failure of the sub-groups was in fact symptomatic of a wider failure to achieve the key principle of inter-co-operation. Although the number of co-operatives associated with the Group had multiplied from ten in 1978 to thirty-nine in 1983, nearly quadrupling in only five years, Soriano Bessó stated that “in reality there were very few that identified closely with the Mondragonian principles ...” (CIDEDEC, 2007: 71). Meanwhile, unable to stay afloat by exclusively serving the co-operatives in the Group, the Caixa started catering to non-member co-operatives and even non-co-operative SMEs, and ceased providing all of the financial needs of the Group's member co-operatives — changes that undermined its ability to implement those very principles (Martínez Verdú, 1993: 101, 105). It had thus become apparent “that it did not make sense to talk of a Co-operative Group from a Mondragonian perspective” (Martínez Verdú, 1993: 107), and although the Group attempted in March of 1983 to make a concerted push towards a more cohesive group based around the Caixa, an economic crisis struck several of its key sectors later that year, triggering a chain reaction that eventually led to its dissolution (Martínez Verdú, 1993: 98–110).

The Group thenceforth revised its approach. The primary change was that the Caixa would cease to be the Group's “eje vertebrador” (coordinating backbone); today, although the award-winning bank comprises over a hundred associated co-operatives across Valencia (Alba Benaches, 2006: 100), most of its deposits no longer come from co-operatives (MacLeod, 2000: 105). As occurred with Mondragón's own co-operative bank, the Caixa's Business/Entrepreneurial Division was converted into an autonomous co-operative, Grupo-Coop, which would spearhead a new group admitting only those co-operatives that were genuinely committed to inter-co-operation. With this more conservative strategy, however, the Group's activities were reduced to a series of informal meetings between the managers of a handful of stalwart co-operatives, and it was clear that only “a minimal structure of cohesion and remainder of the basic principles of the Mondragón experience” had been retained (Martínez Verdú, 1993: 114–5). Eventually, adverse economic conditions plunged the Group into yet another identity crisis, prompting the Group's leaders in July of 1987 to organise a seminar led by a manager from Mondragón. The seminar reinvigorated the Group's aspiration to apply the Mondragón model to Valencia, and in October of that year, the Grup Empresarial Cooperatiu Valencia (GECV, or Cooperative Business/Entrepreneurial Group of Valencia) was established (Martínez Verdú, 1993: 116, 123, 159). As with its previous incarnations, however, the GECV did not live up to the vision of the Covipo pioneers, with several key co-operatives eventually exiting the Group. As a result, although there has been talk of reviving its original mission, the Group's role has settled to one of informal consultancy and the occasional organisation of small-scale joint projects.

It is clear from the foregoing account that the Valencian group's successes in imitating the Mondragón model were accompanied by major failures: although it created a number of

co-operatives that continue to play a significant role in the Valencian economy and society — such as Consum, Florida, the Caixa Popular, and La Mediterranea — many of its initiatives faltered. On the one hand, a number of these failures resulted not from *cultural* obstacles per se, but rather from *institutional* obstacles. For example, deficiencies in social services contributed to the collapse of Covamur, the women’s co-operative; limited access to finance contributed to the collapse of Grupo Agrícola; and the inability to attract skilled workers and managers stifled the Group’s initiatives on many occasions. The policies of Franco dictatorship were especially detrimental, with the Organización Sindical Española (OSE, or Spanish Syndical Organisation, informally known as the ‘Sindicato Vertical’ or ‘Vertical Syndicate’) and the Uniones Territoriales de Cooperativas (UTECOs, or Territorial Cooperative Unions) directly repressing the co-operativist movement (Alba Benaches, 2006: 58–9, 75–6, 194–5). For instance, Covipo and Coinser found it difficult to legally register, and the agricultural schools faced discrimination for fomenting radical ideas. On the other hand, as explained above, the purpose of inter-co-operation is precisely to overcome such institutional obstacles — and, as revealed by the experiences of the Grupo Taronger, the Mutua Popular, the sectoral and regional sub-groups, and ultimately the group system itself, therein lay the Group’s principal failure.

Indeed, in 1986, the Group’s leaders realised that they had encountered a “chicken-and-egg problem” in attempting to create a co-operative group from scratch (Smith and Rothbaum, 2014: 236; see also Joshi and Smith, 2008; Smith, 2001: 33–5): as emphasised by Mario Amparo Camacho of the Florida University in an interview, while some critical number of co-operatives may be required before a group becomes viable, individual co-operatives may themselves be unviable without a group to support them. After the formation of the Caixa, the Group attempted to overcome this dilemma through a ‘big push’, expanding as rapidly as possible by accepting new member co-operatives (and even non-co-operative firms) regardless of their geographical location or proclivity for inter-co-operation (GECV, 1988: 52–3; MacLeod, 2000: 106–7; Martínez Verdú, 1993: 101–12). However, this aggressive strategy incurred a dilemma of its own, as many co-operatives joined purely in order to enjoy the Caixa’s financial services without embracing an ‘inter-organisational culture’ of trust and loyalty, and were consequently reluctant to yield any significant degree of autonomy to the Group, let alone proactively contribute to joint projects. Indeed, a survey carried out by the Group in 1987 revealed that over two-thirds of members in its affiliated co-operatives did not even know that the Group existed (GECV, 1988: 77). Contrariwise, the more conservative strategy adopted subsequently failed to achieve the scale required for the group system to function effectively.

To be sure, Mondragón has faced equivalent obstacles. Problems have arisen in sub-groups, for example, when certain co-operatives were much larger than others and therefore had the potential to dominate joint systems of governance, and when certain co-operatives were more profitable than others and therefore stood to benefit less from inter-co-operation (Whyte and Whyte, 1988: 144, 188). Furthermore, Mondragón has failed to extend its principle of inter-co-operation – or, for that matter, any of its other principles other than *formación* and participatory management – to its overseas subsidiaries (Azkarraga Etxagibel et al, 2012; Errasti et al, 2003; Flecha and Ngai, 2014), and in some cases, even to its domestic subsidiaries in other Autonomous Communities (Arando et al, 2011; Storey et al, 2014; Whyte and Whyte, 1988: 78–80). Nevertheless, the question remains as to why the obstacles to creating a co-operative group did not prevent Mondragón from doing so, at least within the Basque Country.

A possible answer is that Mondragón initially expanded along existing social ties and through the creation of new co-operatives (Whyte and Whyte, 1988: 72); although this strategy was not feasible for long, perhaps it was enough for Mondragón to reach some ‘critical mass’. By contrast, the same strategy was insufficient for the Valencian group, which was therefore compelled to resort to the ‘big push’ strategy consisting primarily of admitting extant firms. This explanation, however, essentially boils down to a culturalist argument (perhaps based on ‘social capital’), and therefore fails to account for the endogeneity of culture to organisation discussed

in the previous section. Indeed, from the outset, the Covipo pioneers adopted Mondragón's principle of social transformation as their overriding objective, and although they engaged in a range of social projects (such as teaching in the Valencian language, a practice with parallels in Mondragón), they shared Arizmendarrieta's belief that the institution of the firm possessed an extraordinary ability to influence behaviour at a fundamental level (GECV, 1988: 70; Martínez Verdú, 1993: 16–36, 56–71, 143–4). Co-operatives were seen as especially valuable in this regard thanks to their potential to stimulate democratic awareness and motivation at a time when opportunities for authentic participation were scarce (GECV, 1988: 20–1).

In fact, although the Group failed to achieve a robust group system comparable to that of Mondragón, its most significant legacy has still arguably been to alter the institutional environment in favour of co-operatives. After Franco's death in 1975, and with the devolution of co-operative legislation to the Autonomous Communities a decade later, the Group's leaders were significantly involved in the replacement of the Vertical Syndicate and the UTECOs with the current system of co-operative federations and confederations that provide a shining exemplar of co-operative support and representation (Alba Benaches, 2006: 74; Lewis, 2000; Martínez Verdú, 1993: 144–5). Although the (con)federations are not co-operative groups as their associated co-operatives remain fully autonomous, they have allowed Valencian co-operatives to not only multiply exponentially but also improve on both economic criteria (such as productivity and quality of management) and social criteria (such as member participation and worker commitment) (Alba Benaches, 2006: 74; Pizarro Barceló et al, 2006: 2; Tomás Carpi and Monzón Campos, 1997: 260).

In any case, the co-operatives created by the Group have also contributed to projects that involve inter-co-operation proper. In 2001, for example, the co-operative group ASCES was formed, comprising Florida and Consum along with the second-tier agricultural co-operative Anecoop and the second-tier educational co-operative Grupo Sorolla, to improve the quality of co-operative management. Although Soriano Bessó (personal interview) laments that it does not possess the "Mondragonian spirit" that animated the endeavours of the Covipo pioneers, ASCES maintains an informal relationship with Mondragón and is now the largest co-operative organisation in the world operating in service sectors other than health and social care, earning nearly three billion dollars of turnover in 2011 (World Co-operative Monitor, 2013: 33). Along with the wide-ranging efforts of the Group's co-operatives themselves (especially Florida and the Caixa), such initiatives have further contributed to managerial professionalisation and formación — the foremost of the six principles that Soriano Bessó identified as the essence of the Mondragón model (Alba Benaches, 2006: 99–100; Martínez Verdú, 1993: 145; Observatorio Español de la Economía Social, 2014a).

In its entirety, the Mondragón experience is undoubtedly "unrepeatable", to use a word invoked by both Martínez Verdú (1993: 116–7) in her history of the Valencian group and president of CONCOVAL Emili Villaescusa in a personal interview. Nevertheless, the Valencian experience demonstrates the potentially broad applicability of the Mondragón model, especially given the inauspicious cultural and institutional conditions in which it emerged. In fact, as a model in its own right, the Valencian group has been used a point of reference for other regions. After liaising with the GECV for almost a decade, Grup Clade was established in 2004 as the first co-operative group in Catalunya (Observatorio Español de la Economía Social, 2014b). Constituted by ten co-operatives in a range of sectors from education to dairy, the group is directly modelled on the Valencian group (Soriano Bessó, personal interview). Villaescusa (personal interview) indicates that another Catalonian group based on the Valencian example, Abacus, has also been founded.

### **The influence of the Mondragón model in the United States**

While the Valencian case probably represents the most significant attempt to comprehensively imitate the Mondragón model, it may come as a surprise that, outside of Spain, Mondragón appears to have had the most influence in the United States, a country known for its individualistic culture and tradition of capitalist enterprise. In fact, despite this stereotype, the

United States boasts a rich history of co-operativism (Curl, 2009), and today contains some of the largest and most prominent dairy and electricity co-operatives in the world (World Co-operative Monitor, 2013). Mondragón's influence in the country, moreover, has been extensive, culminating in September 2013 with an agreement between the recently-established National Cooperative Bank in Washington, DC and the successor of Mondragón's Caja Laboral Popular, Laboral Kutxa, to encourage the formation and preservation of worker co-operatives (Islam and Crego, 2013).

The most ambitious attempt to emulate the Mondragón model in the US is the Evergreen Initiative, an association of worker co-operatives in Cleveland, Ohio aiming to address the city's chronic socio-economic decline, supported by a range of local "anchor" institutions such as hospitals and universities (Wang and Filion, 2011; Iuviene et al, 2010; Howard, 2012). Although Evergreen has not lived up to either the buoyant hopes of its founders or the unrealistic expectations set by a sensationalist media (Friess, 2014), it has raised awareness about the Mondragón model and attracted interest from around the country and beyond. Most notably, it has motivated the United Steel Workers (USW), the largest industrial labour union in North America, to propagate a mixture of Mondragonian principles and union representation known as the "union co-op model" (Witherell et al, 2012).

### **Parallels of the Mondragón model**

In addition to examples that were directly inspired by Mondragón, there are experiences – which are likewise too numerous to mention exhaustively, let alone discuss in detail – that emerged independently but nevertheless display many features of the Mondragón Model. These include: the co-operative associations of Italy, which constitute what is probably the most widely celebrated co-operative experience in the world besides Mondragón, particularly in the region of Emilia-Romagna (Smith, 2001); the New Dawn enterprises in Canada, another country known for its vibrant co-operative sector (MacLeod, 2000: chapter 7); the Kerala Dinesh Beedi federation of co-operative cigarette manufacturers in the Indian state of Kerala, which is famous for its democratic society (Isaac et al, 1998); the South American cities of San Gil in Colombia, Sunchales in Argentina, and Nova Petropolis in Brazil, all of which are considered to be 'capitols' of co-operativism (Salvatori, 2012); the co-operative movement of mid-century Poland (Campbell, 1984); the John Lewis Partnership in the United Kingdom (Ridley-Duff and De Normanville, 2014); and the Cajamar co-operative cluster in the Spanish province of Almería in Andalusia (Giagnocavo et al, 2013). All of these cases variously feature representative systems of democracy, an emphasis worker education, a combination of individual and collective ownership, and some form of inter-co-operative association, and most have had an indisputable impact on not only the economies but also the cultural and institutional environments of their respective regions.

It should, of course, be kept in mind that each of these cases also contains important differences with Mondragón — such as significant union involvement in Italy, Kerala, and Poland — and constitutes a valuable model in its own right. In fact, truth be told, the key features of what I have called "the Mondragón model" are not completely distinctive to Mondragón even when they are fully consolidated, given that Mondragón's ten principles are essentially an augmented version of the International Co-operative Alliance's own set of seven principles, which are recognised and adopted by co-operatives the world over (Novkovic, 2008: 2169-70). Nevertheless, the very fact that co-operatives across the globe have applied similar models to different contexts demonstrates that Mondragón is, in the words of one of its pioneers, a "typical world phenomenon" rather than a cultural exception (Gorroñoigoitia 1987; see also Salvatori 2012).

### **Conclusion**

This article has argued that Mondragón's ability to achieve an organisational culture of trust and loyalty while simultaneously implementing relatively bureaucratic organisational structures is not merely a reflection of exogenous cultural traits, but is rather the product of its

(other) organisational structures, including its systems of governance, education, ownership, remuneration, and inter-co-operation. Although Mondragón has in no case been replicated in its entirety, the experiences of the Cooperative Business Group of Valencia and the Evergreen Initiative in Cleveland, Ohio confirm that the key principles of the Mondragón model, and the organisational structures in which they are embedded, can be applied in cultural settings outside of the Basque Country. Meanwhile, Mondragón's parallels around the world demonstrate that it is not completely accurate to consider it peculiar — or even, perhaps, to speak of “the Mondragón model”.

To be sure, as mentioned at the outset of the article, Mondragón is peculiar in the extent to which it operates in large-scale manufacturing industries. However, the content of this article implies that this need not be the case. Indeed, with a turnover of nearly 60 billion dollars, Legacoop — the Italian association that probably represents the closest parallel to Mondragón — earned more than three times as much in 2006 as Mondragón did five years later (Menzani and Zamagni, 2010: 106; World Co-operative Monitor, 2013: 57–71), and has gained significant ground in high-tech manufacturing sectors since its origins in traditional craft-based industries thanks to the involvement Istituto Cooperativo per L'Innovazione, a consortium dedicated to innovation and technological upgrading (Smith, 2001: 64). In any case, the fact that aspects of the Mondragón model have been applied to a range of sectors only demonstrates its flexibility further.

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## Note

- 1 The household appliance manufacturer Fagor Electrodomésticos also made the list of three hundred largest co-operatives and mutuals with 1.77 billion dollars of turnover, but was in fact part of the Mondragón group until it filed for bankruptcy in November, 2013.