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Worker Cooperatives in a Globalizing World

An Interview with Josu Ugarte

The Mondragon Corporation, based in the Basque Region of Spain, is a renowned worker-owned multinational cooperative enterprise founded in 1956 on the principle of “worker sovereignty.” Allen White, Senior Fellow at Tellus Institute, explores the credo, strategy, and promise of global cooperative enterprises with Josu Ugarte, former president of Mondragon International.

The Mondragon Corporation is frequently cited as one of the world’s leading examples of a worker-owned, worker-controlled enterprise. How did it evolve to such prominence?

The roots of Mondragon can be traced back to the Spanish Civil War and the poverty, hunger, and dislocation that followed. In 1941, a young Catholic priest named José María Arizmendiarieta founded a technical college that began training young people for positions in cooperative enterprise based on a humanistic, participatory model of business. By the mid-1950s, the first cooperative enterprises emerged, setting the stage for the growth of Mondragon into what is today a collection of 250 enterprises with over 75,000 workers and annual revenues of \$13 billion. Although it has become a multinational federation, Mondragon remains committed to its founding principles of solidarity and democracy.

What does the principle of solidarity look like in practice in such a large federation of companies?

Mondragon expresses its commitment to solidarity in two ways. The first is economic: one quarter of the profits of each member enterprise are used to support the well-being of the entire federation. 15% is used to compensate losses experienced by other members, 5% is used to support innovation by funding technology centers and university education, and the remaining 5% supports an Investment Fund that helps members to internationalize their business.

The technology centers operate as coops and help members compete in an increasingly technology-driven global economy. While the majority of R&D directly serves member coops, one center, Ikerlan, works for non-member companies as well. A significant percentage of the graduates of the technology centers and university programs find employment in member coops, creating a virtuous cycle between innovation and commerce.

The second dimension of solidarity is social: Mondragon emphasizes the well-being of the individual workers, as well as that of the federation. This takes the form of employment relocation within the family of Mondragon members when necessary as well as continuous attention to the CEO-to-worker salary ratio. In Mondragon, this ratio is 6 to 1, compared to 70 to 1 for large, publicly listed Spanish firms and 300 to 1 for large US firms.

You mentioned employee relocation as an example of social solidarity. Can you provide an example of how this works?

After the Spanish housing bubble burst, Fagor Electrodomésticos, the Mondragon member that produces consumer appliances, went bankrupt due to a large downturn in sales, causing 2,000 workers to lose their jobs. Thus far, Mondragon has been able to find solutions for 1,700 of those affected. 700 were granted early retirement, and another 1,000 were relocated to other companies inside the federation. Mondragon has created its own safety net, providing security in the event of employment dislocation in line with the principles of economic and social solidarity, and thereby keeping unemployment within the federation at any point near zero.

How is democracy, another core value of Mondragon, expressed in its governance structure?

As a cooperative, Mondragon's commitment to democracy is expressed in both ownership and governance. Equity in the organization is owned by workers. This shared ownership builds a sense of shared responsibility to look after the long-term, best interests of the organization. Further reinforcing this sensibility, each new worker contributes approximately 12,000 €, spread over 24 months, to the enterprise.

In terms of governance, each associate has one vote, and associates elect the Supervisory Board. Any worker may be elected, and an elected worker is required to serve. Associates also elect the President and CEO. Every significant strategic or social issue—such as an acquisition, extended work hours, or a salary reduction in an economic downturn—must be voted on in the General Assembly, the annual meeting of all Mondragon workers. The Social Council, elected in the same fashion as the Board, meets bimonthly and submits recommendations to the Board on issues such as worker security, protection, and overtime hours.

Relative to core values like solidarity and democracy, how much emphasis does Mondragon place on environmental stewardship?

Mondragon is doing more in the area of environmental protection than it publicly discloses. One reason that Mondragon doesn't communicate as aggressively as other companies, I believe, is that the majority of its member companies are engaged in Business-to-Business (B2B) commerce. In contrast, Business-to-Consumer (B2C) commerce is more sensitive to consumer and citizen views about ecological protection. For example, Fagor Electrodomésticos, mentioned earlier, is quite effective at communicating its environmental impacts because customers are interested in energy efficiency when purchasing refrigerators and stoves. But lack of communication by the B2B enterprises does not imply a lack of action.

In the contemporary global economy, are worker cooperatives inherently more resilient and durable than privately held or publicly traded enterprises?

It depends on the company and the ownership. But, in general, there is reason to think so. Coops and family-owned companies tend to operate with a longer-term perspective than publicly traded companies, most of which are subject to investor pressures for short-term returns. The culture of an enterprise's home country also influences its behavior. Countries with more collectivist cultures tend to produce enterprises with a longer time horizon and more intergenerational outlook. The Basque Country and Germany fall into this category. By contrast, in countries with a more individualistic ethos, like the US and the UK, profits trump long-term thinking.

Do cooperatives tend to foster greater equality of income in the regions where they operate?

Yes. In the Basque Country, and especially in the province of Guipúzcoa (home to cities like San Sebastián and Mondragón), income inequality, as measured by the Gini Index, is very low, similar to that of Norway. Historically, Guipúzcoa has had a strong collectivist culture, leading to low income inequality relative to other regions of Spain and most regions of Europe. Low unemployment, owing to the economic and social solidarity of Mondragon businesses, further helps to reduce inequality.

The growth imperative is the most powerful driver of the strategy and behavior of multinational companies. To what extent does this apply to coops such as Mondragon?

Profits are essential. Without them, an enterprise will fail, and employment cannot be sustained. Growth can be a key driver of profits, though other factors of course drive profitability as well. The difference between Mondragon and non-coops is less about profits than about how the profits are shared. Mondragon's business model balances three pillars: profits, employment, and a long-term horizon. Solid profits enable employment opportunities. Growth is a means, not an end.

Mondragon describes financial capital as “instrumental and subordinate” to its operations. Explain what this means.

The coops need financial capital to create employment. But, again, profits are a servant to job creation, not vice versa. The sovereignty of labor is part of Mondragon's credo. If 1% of a coop's profits are produced in the Basque Country and, say, 6% of the same coop's profits originate in its Chinese operations, the coop will not consolidate in the latter simply because the Basque operation is a minor contributor to overall profits. Employment creation and preservation, at whatever scale, is deeply embedded in the culture of coops. When workers are owners, closure of any operation—even one with limited profitability—is a last resort, pursued only when a facility endangers the survival of the larger enterprise.

Is Mondragon’s capital structure—used to support plant expansion, new plant construction, acquisitions, and other activities—different from that of conventional companies?

Yes and no. Bank debt is provided by commercial banks as with any other company (even though Mondragon has its own worker’s credit cooperative, Caja Laboral), but banks’ lending capacity to coops is limited by Spanish regulators. The federation’s retained earnings are also an important source of investment capital, and member companies receive government loans. However, as a worker-owned coop, Mondragon cannot use the stock exchange to sell shares and raise debt. And given the relatively modest earnings of even the most affluent worker-owners, it is not feasible to seek capital resources from wealthy shareholders as conventional private enterprises sometimes do.

Mondragon uses the term “multilocalization” to describe the organization’s expansion strategy. What does this term mean?

Multilocalization refers to an intentional and strategic decentralization of operations in multiple countries. When opportunities arise in another country, Mondragon’s strategy is not to relocate an existing facility there, but, instead, to maintain the Spanish operation and to acquire or build a new facility abroad. This is quite different from the behavior of US and UK companies, for example, which have been moving domestic operations overseas for decades. For Mondragon, multilocalization serves two key objectives: preserving jobs and creating a more resilient enterprise in a world where national economic conditions are subject to high levels of uncertainty and volatility. In general, this multilocalization strategy has proven beneficial, contributing to stability and serving as a buffer against frequent, disruptive, and expensive relocations.

Mondragon operates over 120 facilities outside of Spain, and over 70% of sales originate outside of the country as well. What are the major challenges posed by its evolution to a multinational enterprise?

Globalization has been one of the biggest changes—and challenges—of the last twenty years. If coops want to survive and prosper, they must confront the realities of globalization rather than ignoring or resisting them. This requires dealing with three issues: the interdependence between countries in terms of taxes, duties, exchange rates, and supply chains; the challenges to CEOs and managers from diverse countries adapting to each other and to a coop business culture; and understanding the needs, preferences, and expectations of the millions who are entering the middle class each year. If we add rapid technological change, the challenge of globalization is truly enormous. I believe Mondragon, in general, is facing these challenges very well.

Mondragon’s four principal business areas are Knowledge, Finance, Manufacturing, and Retail. Does this reflect an underlying strategy, or did this structure emerge organically over the years?

Within Mondragon, the locus of power lies in the individual coops. They do as they wish. Mondragon acts to support each enterprise, playing the role of synergizer, strategist, and harmonizer so that the federation as a whole can create greater value than the sum of its members. Mondragon helps develop and support a mix of business lines, which it believes will yield complementarities and efficiencies for the entire group.

Despite the federation's cooperative origins and mission, not all of Mondragon enterprises are worker-owned. Why is that?

Every Mondragon member is a coop, but not all their subsidiaries are. Members often need to make quick decisions regarding an acquisition, which leaves insufficient time to convince workers at the acquired company that the cooperative model is in their best interest. Over time, on a case-by-case basis, Mondragon works with its members' non-coop subsidiaries to explain the benefits of cooperative ownership. Workers are always given this option, but in some cases, they choose not to be owners. This can happen for a variety of reasons. Sometimes, they don't know what it means to become an owner, or they know but are uncomfortable with that role. Sometimes, they are unwilling to invest financially in the coop to help capitalize its operations. Others may be accustomed to fixed hours without further responsibilities, or unaccustomed to the reduced salaries or longer hours that circumstances may temporarily require.

Mondragon uses education and persuasion, not mandates, to convince members' subsidiaries to adopt the coop model. Sometimes it works; sometimes not. In Spain, it took seven years to convince two companies from different regions to become coops. In Poland, one subsidiary was ultimately unsuccessful at convincing its workers to convert to a cooperative model.

Would you say that the attraction of cooperatives varies according to national cultures and socioeconomic conditions?

Yes, every country has its own characteristics. The core values of coops—sovereignty of labor, democratic control, solidarity—fit or conflict with different national cultures to varying degrees. For example, in France, the trade unions are very powerful, and the culture of worker vs. owner competition is deeply entrenched. In Poland, the coop concept suffers from association with the era of Communist rule. In China, legal problems impair the operations of foreign coops.

What is the future of large, global cooperatives? Is the Mondragon story unique or replicable?

The Basque roots of Mondragon remain a powerful force in the identity, mission, and purpose of the federation. Exporting the model faces a host of cultural and sociological barriers, especially attracting executives and managers who understand and embrace the values of coops and are willing to work for salaries usually well below what they could earn in conventional profit-driven, shareholder-controlled enterprises. But coops offer many advantages to workers, from rising share prices to a more secure retirement package. The barriers to building a strong coop culture in operations around the world are formidable. But the promise of coops as global force for solidarity, democracy, and economic equality remains a powerful incentive to expand the coop model worldwide.

The views and opinions expressed in this interview are those of the interviewee alone and do not necessarily represent those of Mondragon or its constituent cooperatives.

About the Interviewee



Josu Ugarte is the former president of Mondragon International, the international unit of Mondragon Corporation, the world's largest group of worker-owned cooperatives, with operations in Brazil, Chile, China, Mexico, Russia, Taiwan, the United States, and Vietnam. He is an expert in strategy, global competitiveness, management, and globalization of small and medium-sized enterprises. He is the author of *Cómo salir de la crisis* (2010) and *España está en crisis. El mundo no* (2013). He holds a degree in economics from the Basque Country University.

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