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Case Study:

The Mondragon Cooperative Corporation

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# Case Study: The Mondragon Cooperative Corporation

## Introduction

The Mondragon cooperative corporation is one of the longest running in addition to being considered one of the most successful cooperative companies in the world (Cheney, 2002; Moller, 1984). A cooperative company is a worker-owned business organization, which focuses on the needs of the workers and the community as well as creating a sustainable business organization (Freundlich, 1998; GofWA, n.d.). Because of the openness and the feeling of belonging that is created by a cooperative organization, the productivity per worker is among the highest of any organizational structure (Moller, 1984).

As opposed to a conventional corporation, which is considered successful by the amount of capital the business is able to control and in which the labour is just a means of obtaining said capital (Freundlich, Grellie, & Altuna, 2009), a cooperative corporation’s main measurement of success is through the organization’s workers or labour as opposed to its capital; this is not to say that capital is not important to cooperative corporations, it is just not the main measure of success (Freundlich, Grellie, & Altuna, 2009; Moller, 1984).

The following paper explores the historical beginnings of the Mondragon Cooperative, as well as the current state of the cooperative today in terms of their strengths and weaknesses. Because cooperative organizations have a unique organization structure, this paper will explore how the corporation has structured its internal government.

## History

During Francisco Franco’s reign, many regions of Spain were underutilized and severely underfunded, leaving them heavily affected by poverty (Lewis & Conaty, 2012). Poverty was extremely prevalent within the Basque region, including the village of Mondragon (Lewis & Conaty, 2012; Freundlich, 1998). During the 1940’s, Fr. Jose Maria Aizmendiarrieta began the creation of the Mondragon Cooperative Corporation by rallying the local population behind him, while also creating a polytechnic institute to train individuals with useable skills (Freundlich, Grellie, & Altuna, 2009; Mondragon: Historical Background, n.d.). Five graduates of the polytechnic institute who were inspired and guided by Aizmendiarrieta founded the Mondragon Cooperative Corporation in 1956 (Freundlich, Grellie, & Altuna, 2009; Cheney, 2002; Mondragon: Historical Background, n.d.). The economy at the time of the creation of the Mondragon cooperative was agriculturally and industrially based (Lewis & Conaty, 2012). As such, the first enterprise created within the Mondragon cooperative was the building of paraffin cookers and heaters (Lewis & Conaty, 2012).

 Figure 1. Mondragon-Arrasate Region Map

## Current State

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While Mondragon began as an agricultural and paraffin cooker and heater manufacturing cooperative (Freundlich, Grellie, & Altuna, 2009), the organization has now expanded its cooperative into four main sectors: Financial, Industry, Distribution, and Knowledge (Errasti, Heras, Bakaikoa & Elgoribar, 2003).

### Finance

Within its finance sector, Mondragon has created two banks, Laboral Kutxa and Laquin Aro (Mondragon: Financial, n.d). The focus of the financial group is to embrace and develop banking activities, social welfare, as well as insurance (Mondragon: Financial, n.d). Laboral Kutxa is mainly focused on the development of small-to-medium sized new cooperative corporations in addition to providing specialized financial insurance for individual cooperatives (Mondragon: Financial, n.d). The aim of the Laquin Aro is focusing on maintaining the wellbeing of the cooperative’s members by ensuring that an adequate amount of funds are maintained for the future (Mondragon: Financial, n.d).

### Industry

The Industry sector of the Mondragon cooperative has been further subdivided in to five different areas: capital goods, consumer goods, industrial components, construction, and enterprise services (Mondragon: Organizational Structure, n.d). Capital goods in the Mondragon cooperative focus on the manufacturing of machine tools used for metal cutting and sheet metal forming; these products are mainly used in the automotive and aeronautic industries, in addition to the creation of domestic appliances (Mondragon: Capital Goods, n.d). The capital goods area of the industry sector mainly focuses on heavy industry items, whereas the consumer goods area produces “white line domestic appliances: fridges, washing machines...” in addition to furnishings for the home and the office, and sporting/fitness equipment (Mondragon: Consumer Goods, n.d.). The industrial component supplies the capital and consumer goods components with the hardware they need by manufacturing the applicable goods (Mondragon: Industrial Components, n.d). The construction area of the Industry sector is prominently based around the development of infrastructure as well as Suprastructure of an area (Mondragon: Contruction, n.d). The final area of the Industry sector is enterprise services; this area is an advisory company which focuses on “civil, urban development, industrial, and environmental engineering” (Mondragon: Enterprise Services, n.d).

### Distribution

To distribute the agricultural and household products that the Mondragon cooperative produces, the cooperative endorsed the creation of the Eroski Group, which is one of the largest retail groups within Spain and southern France (Mondragon: Retail, n.d.). The Eroski Group is not only focused on profiting from the sales cooperative products, it also is interested in combating social problems such as obesity in children (Mondragon: Retail, n.d.).

### Knowledge

The Mondragon cooperation corporation regards education very highly, and ensures that individuals have the ability to attain further training for their degree. There are two areas of knowledge from the Mondragon cooperation, the first focuses around training (University of Mondragon, n.d.). The University of Mondragon’s main campus is found in Mondragon, but has five campuses found around Spain (University of Mondragon, n.d.). The university has eleven different degree courses as well as a number of postgraduate masters programs, in addition to providing professional refresher courses and vocational training (University of Mondragon, n.d.). Technological innovation and training are of the utmost importance in the creation of the Mondragon cooperation, and to provide an opportunity for this innovation, Mondragon created research centres (University of Mondragon, n.d.; Basterretxea & Albizu, 2011).

## Organizational Structure

The Mondragon cooperative corporation is lead by a bottom-up corporate democratic structure (Lafuente, 2012). This is in contrast to typical organizational structures such as the bureaucratic organizational structure, which has a head indiviudal that moniters all other individuals within the company in additon to making the majority of decisions regarding the outcome and direction of the company (Dessler & Cole, 2011). A worker-elected president and governing council runs cooperative organizations; every member of the organization is able to have their opinions accounted for by voting (Freundlich, 1998; GofWA, n.d.).

**Figure 2.** Mondragon Cooperative Organizational Structure

# **Accomplishments**

Within fifty years, the Mondragon cooperative has grown from its five original members manufacturing and producing paraffin heats (Lewis & Conaty, 2012) to 83,000 members, in addition to 260 cooperatively owned and operated businesses; in 2011 the Mondragon cooperative revenue was $24 billion dollars (Witherell, Cooper & Peck, 2012).

The Mondragon cooperatives are involved in a number of different forms of capital: human, financial, and physical. Human capital is created and supported by training individuals with the skills to produce better products and is completed within the knowledge sector of Mondragon. Laboral Kutxa and Laquin Aro create and maintain the financial capital within the Mondragon organization. Physical capital is created within the five different areas of the industry sector.

## Strengths and Weaknesses of the Organization

A major strength of the Mondragon cooperative is the social cohesion that the organization creates. Much of modern society is focused around the strength of the individual and their independent success rather than the idea of working together to better the society (Panorama, 2013). The idea of individualism is drastically different in cooperatives such as Mondragon, which “[does not] allow [an] individualistic culture inside of itself is a group of people looking for [a] common economic, social and educational growth and avoiding the exploitation of the weak by the strong” (Dias de Carvalho, 2012, p. 192). Sharing the knowledge, which is one of Mondragon’s central ideals, allows each member to strive within the industry (Lewis & Conaty, 2012). New members have the resource available of getting tips and tricks from members with more experience (Lewis & Conaty, 2012).

Another source of strength for the Mondragon cooperative is the ability of all individuals to invest in their own future by depositing their money into the Mondragon banks rather than into an alternative banking option (Lewis & Conaty, 2012). Sharing the gains within the cooperative corporation is a major initiative for the organization as a way of creating and maintaining equality. The highest paid member of the Mondragon cooperative corporation is not able to be paid more than four and a half times that of the lowest paid member (Moller, 1984).

One weakness within the Mondragon cooperative corporation is in part created by their strengths. Attaining and retaining highly skilled upper level management is difficult for the Mondragon cooperative because many individuals disagree with the salary compensation (Basterretxea & Albizu, 2011). Although it is difficult to find skilled upper level individuals, the individuals who are involved in the company are highly committed to the organization’s values (Basterretxea & Albizu, 2011).

## Conclusion

The Mondragon cooperative corporation is an extremely successful business organization because it brings people together to work on a common task; moreover, it is also successful because it gives each individual responsibility while allowing them to maintain their autonomy. The Mondragon cooperative corporation’s organizational structure creates social responsibility for all individuals within each of the different areas, as each individual within the cooperative is working with each other rather than against each other (Arizmendirreta, 2001).

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