

This item is the archived peer-reviewed author-version of:

The Mondragon Group facing globalization : a study on image and reality

Reference:

Latinne Amanda.- The Mondragon Group facing globalization : a study on image and reality
International Ciriec Conference on Social Economy in Antwerpen van 24 tot 26 oktober 2013 - 2013, p. 1-16

The Mondragon Group facing globalization

A study on image and reality

Amanda Latinne , Universiteit Antwerpen, België

amanda.latinne@ua.ac.be

The Mondragon group facing globalization. A study on image and reality.

Abstract

This paper examines the Mondragon Group facing globalization.

Mondragon is a transnational enterprise with an employment of 83.569 employees and a sales total of 14.832 million Euros in 2011. Started as Basque cooperatives producing for their Spanish *Hinterland*, they gradually developed into a transnational corporation consisting of 281 enterprises of which only 111 are cooperative companies¹. The trend of Europeanization and globalization in combination with the fierce competition they encountered in their traditional sector of household appliances seduced them to takeovers, joint ventures and buy-outs thereby losing their original outlook. Mondragon, and more specifically Fagor Electrodomesticos, producer of household appliances, form an interesting study object for research on alternatives to the traditional capitalist economy. The study reveals that their inspiring conciliation of labour and capital covers some disturbing contradictions between image and reality.

Much of the resilience of the Mondragon Group towards the global economic crisis can be attributed to their cooperative structure being more flexible with labour, fiscal advantages and a utopian democratic image. When supporting social economy initiatives governments should be aware of the fact that global competition has affected the integrity of social economy initiatives.

Search terms: Mondragon cooperatives, globalization, social economy

Introduction

When studying the Mondragon cooperatives in 2009-2012 I had several motives. Obviously, I studied them as part of my curriculum Master in Law at Ghent University. In view of my eclectic background,² I also studied them to see if they offered a genuine alternative to the traditional capitalist economy.

Having started our business in the late eighties, my partner and I have seen and experienced first handed the ruthless globalization effects throughout the nineties and the new millennium. We witnessed the deindustrialization of Western Europe, the competition for raw materials³ as well as the depreciation for manual labour in the “knowledge society” and the upcoming Asian “new power generation”. We produced “cradle to cradle” for the automotive business long before the expression became fashionable and created a

¹ <http://www.mondragon-corporation.com/CAS/Magnitudes-Economicas/Cifras-mas-reseñables.aspx>.

² I am a historian, anthropologist by education an ethical entrepreneur in plastic recycling by practice.

³ The prices of plastic industrial scrap, our incoming materials, followed the price boom of all raw materials.

revolutionary flat business structure in which we worked alongside our young low skilled workers of diverse origin. Despite all this, we were not perceived as “innovative” in an economy that was proud of shedding off its industrial past. When friends, commenting on our business, pronounced plastic recycling as “the business of the future”, we could but pityingly remark that we were awaiting this brilliant future for the past 25 years. When the financial crisis entailed the economic recession we were curious about the “resilience” of other likeminded entrepreneurs and this curiosity led me to Mondragon.

Mondragon is a transnational enterprise with an employment of 83.569 employees and a sales total of 14.832 million Euros in 2011⁴. It originated as an industrial cooperative in the nineteen fifties in the Basque region of Spain but developed into an international conglomerate of cooperatives and conventional (joint venture) enterprises. As a pragmatic answer to a social and economic reality, Mondragon is an interesting study subject for research on alternatives to the traditional capitalist economy, studied by numerous scholars⁵. Mondragon offers unique opportunities for studying the interaction between structural change in the form of globalization and the behaviour of social economy enterprises in dialogue with public authorities. Seen the fact that the cooperatives were founded in the fifties of the last century and functioned rather isolated during the reign of Franco before realizing an accelerated global evolution after Spain entered the European Community they provide a perfect subject for a longitudinal study on the effects of globalization. Most publications concentrate on the genesis of the cooperatives, the democratic organization and the clustering. This article is a modest attempt to show the degenerative effects of the globalization on the initial ideology through the juxtaposition of the official discourse with dissenting voices⁶. Special attention is given to the interaction with (local) authorities as well as to the absence of labour union representation in the Mondragon Group.

This article attempts to open the debate on the above-mentioned aspects. It is impossible to describe the historical evolution of the Mondragon Group within the confinements of an article. Instead, starting from the evolution of one of the cooperatives, *Fagor Electrodomesticos*, producer of electrical household appliances and the oldest cooperative of the Group, I shall try to offer an insight in the effect of globalization on the position of (cooperative) workers. To these purpose academic articles on the evolution of Mondragon are related to sources that are more popular in origin: press articles and web publications. The website and the monthly journal of *Ahots Kooperatibista* receive a central role for their criticism from within the cooperatives⁷. Labour law aspects are treated through Basque cooperative law, Spanish law, European law and International Labour Organization (ILO) Conventions.

First, I will treat the evolution from the seventies of the last century because it created the basis for the globalization strategy of *Fagor*. I will consider the lack of collective representation of the workers and their shareholder like status as well as the clustering of cooperatives and the replacement of direct democracy with representative democracy. Secondly, I will discuss the consequences of the economic crisis considering especially the effects on Basque employment in the cooperatives. Thirdly, I will give some attention to the interaction with (local) governments. At the end of the article, there will be some concluding remarks on the difference between image and reality and on the erosive effects of globalization.

⁴ <http://www.mondragon-corporation.com/CAS/Magnitudes-Economicas/Cifras-mas-reseñables.aspx>.

⁵ i.e. Cheney, Clamp, Freundlich, Greenwood, Hacker, Kasmir, Lindenfeld, Rotschild-Whitt, Whyte&Whyte, Wiener&Oakeshott and many more.

⁶ Kasmir was the first to study the cooperatives from within but her work ended in the nineties of the last century, whereas the pressure of globalization grew stronger from then on; S. KASMIR, *The Myth of Mondragon. Cooperatives, Politics, Working-class life in a Basque Town*, Albany, State of New York Press, 1996.

⁷ *Ahots Kooperatibista* is a collective of workers-owners in the Basque cooperatives that formulate their critical opinion in their monthly journal as well as in the democratic organs of their cooperatives.

FAGOR: the origin of the Mondragon Group and one of its most virulent global actors

The start of the Mondragon Group in a capitalist-corporatist setting

In 1959, five entrepreneurial young men, inspired by their parochial priest José Maria Arizmendiarieta, started their cooperative factory, *Ulgor*⁸, for the production of gas stoves for domestic use⁹. Their entrepreneurship was the pragmatic consequence of attending the social catholic study circles organized by Arizmendiarieta, who motivated his best students to follow engineering studies and taking up responsible positions in the local metallurgic company *Union Cerrajera*. Disillusioned by their attempts to democratize the company from within¹⁰, they started their own enterprise. Over the next years, several other cooperatives were founded around a cooperative bank, the *Caja Laboral Popular*. The *Caja* acted as an incubator for new start-ups, providing them with the necessary capital, business knowledge and market strategy¹¹. Partly enabled by the Stabilization Pact¹², the *Caja* was to be the first important milestone in the globalization strategy of the cooperatives although by 1970 the group counted 41 cooperatives, 8743 workers producing mainly for Spain¹³.

Workers became worker-owners by paying the amount of one year of pay¹⁴. The *Caja* funded the start up with loans to worker-owners¹⁵ and company gains were capitalized in individual capital accounts to give

⁸ Usatorre, Larranaga, Goronogoitia, Ormaetxea and Ortubay bought a company in 1955, moved it to Mondragon in 1959 and transformed it into a cooperative in 1959; A. AZEVEDO and L. GITABY, "The cooperative movement, self-management and competitiveness: the case of Mondragon Corporación Cooperativa", *Working USA: The Journal of Labor and Society*, 2010, (5) 8; F. MOLINA, *José Maria Arizmendiarieta (1915-1976), Biografía*, Mondragon, MCC, 2005, 294; F. MOLINA, *Fagor Electrodomesticos (1956-2006). Una experiencia cooperativa*, Mondragon, MCC, 2006, 35-43.

⁹ M. LUTZ, "The Mondragon co-operative complex: an application of Kantian ethics to social economics", *International Journal of social economics*, 1997, (1404) 1406; F. MOLINA, *Fagor Electrodomesticos (1956-2006). Una experiencia cooperativa*, Mondragon, MCC, 2006, 35-43.

¹⁰ Several of Arizmendiarieta's disciples became members of the *Jurado de empresa*, a corporatist institution created by Franco who viewed the enterprises as communities of capital and labour, A. AMAYA QUER, "La figura de Franco en el discurso de la Organización Sindical española durante los años del desarrollismo a través del Diario Pueblo (1957-1969)", *Revista Española de Historia*, 2008, (503) 504; F. MOLINA, *José Maria Arizmendiarieta (1915-1976), Biografía*, Mondragon, MCC, 2005, 281-294; J.M. ORMAETXEA, *Orígenes y claves del cooperativismo de Mondragon*, Mondragon, Caja Laboral, 1998, 38.

¹¹ P. A. NARVARTE ARREGUI, "La experiencia cooperativa de Mondragon: estudio de su viabilidad organizacional en el contexto de Euskadi", *revista de economía pública, social y cooperativa*, 2006, (231) 240; H. WIENER and R. OAKESHOTT, *Worker-owners Mondragon Revisited. A New Report on the Group of Cooperatives in the Basque Provinces of Spain*, London, Anglo-German Foundation, 1987, 39.

¹² The Stabilization Pact was an initiative of the International Monetary Fund, IMF, that offered the Spanish Government financial support to revive the Spanish economy and prepare the liberalization of the Spanish market; S. LIEBERMAN, *Growth and crisis in the Spanish economy 1940-93*, London, Routledge, 1995, 29-30, 51; X. ITCAINA, "Catholicisme, économie identitaire et affinités électives: les coopératives basques comme groupements volontaires utopiques", *Social Compass*, 2002, (393) 398; H. WIENER and R. OAKESHOTT, *Worker-owners Mondragon revisited, A new report on the group of cooperatives in the Basque provinces of Spain*, London, Anglo-German Foundation, 1987, 39..

¹³ Seen the fact that Spain was rather isolated from the rest of Europe; P.A. NARVARTE ARREGUI, "La experiencia cooperativa de Mondragón: estudio de su viabilidad organizacional en el contexto de Euskadi", *Revista de economía pública, social y cooperativa*, 2006, (231)240.

¹⁴ A. CAMPBELL and B. FOSTER, *The Mondragon Movement. Worker Ownership in Modern industry*, London, Industrial Common Ownership Movement, 1974, 10.

¹⁵ A. GUTIERREZ JOHNSON and W.F. WHYTE, "The Mondragon System of Worker Production Cooperatives" in F. LINDENFELD and J. ROTHSCHILD-WHITT (eds.), *Workplace democracy and social change*, Boston, Extending Horizon Books, 1982, (177) 186.

cooperatives a stronger financial basis. Individual capital accounts could not be sold, thereby protecting the cooperatives from a sell out by their individual members. Only a majority of members could decide in a general assembly to sell or stop a cooperative activity¹⁶.

The *Asamblea General*, a General Assembly of all worker-owners, constituted the focal point of the cooperative structure. By majority vote, this General Assembly appointed a *Consejo Rector*, a Board, for a period of four years. The *Consejo Rector* formulated the business strategy and chose a General Manager, carefully weighing commercial and social concerns¹⁷. In addition, cooperatives of a certain size also organized a *Consejo Social*, based on the model of the *Jurado de empresa* but lacking its collective bargaining power¹⁸.

The role of management was crucial in developing the cooperative strategy. Although the *Consejo Rector* appointed the General Manager, the latter was allowed to compose his own management team without outside intervention. A charismatic leader could thus develop a strong management team competing with the *Consejo Rector* on strategic decisions, thereby unbalancing the social - commercial equilibrium.¹⁹ Moreover, the inspiring conciliation of labour and capital throughout the democratic institutions did not prevent the initial founding cooperatives from duplicating the hierarchical division of labour of their capitalist surroundings. Their products mirrored the post war American way of life and their ambitions that of the upcoming "Fordist" middle class. Not surprisingly, the cooperative business strategies copied the economic growth model of the West. The scientific management method determined the work organization and workweeks followed the prevailing rhythm of industry²⁰.

From the very beginning of their becoming a study subject, the Mondragon cooperatives were granted an almost mythical aura of democracy and equality. The 1:3 relation between lowest and highest incomes in the cooperatives impressed many researchers. Frequently misjudged as a very revolutionary idea originating from Arizmendiarieta's egalitarian ideology, the founders merely copied the practice from the large metalworking company *Union Cerrajera*²¹. Job classifications created by management, and not decided on in any democratic meeting, formed the basis for the identification of one's position on the 1:3 scales²². Moreover, in reality the gap was often widened to 1: 4, 5 by allowing directors and managers extra payments for their special responsibilities²³. The much-applauded principle of one-person one vote is an equally fascinating issue that

¹⁶ W. F. WHYTE and K.K. WHYTE, *Making Mondragon, the Growth and Dynamics of the Worker Cooperative Complex*, Ithaca, ILR Press, 1991, 47.

¹⁷ It would lead us too far to give a more detailed description of the internal organization of the cooperatives in this brief overview. For further information: K. BRADLEY and A. GELB, *Cooperation at work. The Mondragon experience*, London, Heinemann, 1983, 54-55; A. CAMPBELL and B. FOSTER, *The Mondragon Movement. Worker Ownership in Modern Industry*, London, Industrial Common Ownership Movement, 1974, 9.

¹⁸ S. KASMIR, *The Myth of Mondragon. Cooperatives, Politics, Working-class life in a Basque Town*, Albany, State of New York Press, 1996, 133; W.F. WHYTE and K.K. WHYTE, *Making Mondragon, the Growth and Dynamics of the Worker Cooperative Complex*, Ithaca, ILR Press, 1991, 38-41; S. TURNBULL, "Innovations in Corporate Governance: The Mondragon experience", *Corporate Governance: an International Review*, July 1995, 169-180.

¹⁹ A situation which was considered as problematic by the Caja Laboral, A. CAMPBELL, C. KEEN, G. NORMAN and R. OAKESHOTT, *Worker-owners: the Mondragon Achievement*, London, Anglo-German Foundation for the Study of Industrial Society, 1977, 31.

²⁰ D. GREENWOOD and J.L. GONZALEZ SANTOS, *Industrial Democracy as Process: Participatory Action Research in the Fagor Cooperative Group of Mondragon*, Assen, Van Gorcum & Comp. B.V., 1992, 69-79.

²¹ A. GUTIERREZ JOHNSON and W.F. WHYTE, "The Mondragon System of Worker Production Cooperatives" in F. LINDENFELD and J. ROTSCCHILD-WHITT (eds.), *Workplace democracy and social change*, Boston, Extending Horizon Books, 1982, (177) 180.

²² A. GUTIERREZ JOHNSON and W.F. WHYTE, "The Mondragon System of Worker Production Cooperatives" in F. LINDENFELD and J. ROTSCCHILD-WHITT (eds.), *Workplace democracy and social change*, Boston, Extending Horizon Books, 1982, (177), 188.

²³ A. CAMPBELL, C. KEEN, G. NORMAN and R. OAKESHOTT, *Worker-owners: the Mondragon Achievement*, London, Anglo-German Foundation for the Study of Industrial Society, 1977,26.

most visitors and researchers presumed as dating from the founding of the cooperatives when it was only introduced in 1971. Up until 1971, votes related to the job classification, which led to a system of plural vote²⁴.

The development of the ideology, the consolidation of group structures and the globalization strategy

From the seventies on the cooperatives followed a more commercial strategy. *Ularco* was created in 1964 as a group of cooperatives around *Ulgor*, an example that was soon followed by other cooperatives as a strategy to optimize business costs and to pool eventual losses. After the admission of Spain to the European Community in 1986, the initial regional grouping was modified into a sector grouping to improve the enclosure of European markets. Facing a technological development gap, due to their former protectionist environment, the cooperatives appropriated large parts of governmental research and developments funding to innovate products and production processes and to develop business models and distribution channels. Although innovative in the general understanding of the term they did not seek to provide a counter power to the ruling thoughts in capitalist companies which resulted in the adaptation to the general "capitalist model"²⁵. The grouping strategy, in combination with the formalizing of management and even the headhunting for managers in the conventional industries, led to the substitution of the direct democracy with a representative democracy²⁶ that more and more resulted in a shift of the decision making process from bottom up to top down²⁷. Not surprisingly, the acceptable spread between lowest and highest income widened to 1:6.²⁸

In 1991 a limited company, *MCC Inversiones* was created to enable investments in conventional firms, thereby following the worldwide trend of mergers and acquisitions²⁹. *Ulgor*, by then name changed into *Fagorelectrodomesticos*, realized that its success on the market of electro domestic appliances demanded an intelligent takeover strategy. In 1999, *Fagor* bought *Wrozamet* in Poland, thereby incorporating the well-known brand of *Mastercook*.³⁰ In their official communication, management stresses the fact that Polish Unions preferred the *Fagor* takeover bid (although lower than that of others) because of the guarantee of job security and social improvements³¹. In reality, the drastic restructuring of the plant led to the loss of 800 jobs in Poland from the takeover in 1999 to 2005. In addition, several Basque worker-owners lost their job within *Fagorelectrodomesticos* because of the delocalization of part of the production from the Basque mother

²⁴ D.J. GREENWOOD and J.L. GONZALEZ SANTOS, *Industrial democracy as a Process: Participatory Action Research in the Fagor Cooperative Group of Mondragon*, Assen, Van Gorcum & Comp. B.V., 1992, 87.

²⁵ I. IRIZAR and G. MCLEOD, "Innovación emprendedora en el grupo Mondragón: el caso de sus centros tecnológicos", *revista de economía publica, social y cooperativa*, 2008, (41) 64; U. LOPEZ, S. LOPEZ and I. LARRANAGA, "Innovation in industrial cooperatives: special features and potential of the Mondragon model", *International Journal of Technology, Management and Sustainable Development*, 2009, (39) 40..

²⁶ As thus by 1985 there were 14 regional commercial groups of cooperatives that repeated the institutional structure of the base cooperatives on a higher level, P.A. NARVARTE ARREGUI, "La experiencia cooperativa de Mondragón: estudio de su viabilidad organizacional en el contexto de Euskadi", *Revista de economía publica, social y cooperativa*, 2006, (231) 243.

²⁷ S. SMITH, "Blooming together or wilting alone? Network externalities and the Mondragon and La Lega Cooperative Networks" in *Wider Discussion Paper*, Helsinki, Unu-wider, 2001/27, (1) 15 en www.wider.unu.edu/publications/working-papers/discussion-papers/2001; P. TAYLOR, "The rhetorical construction of efficiency: restructuring and industrial democracy in Mondragon Spain", *Sociological Forum*, 1994, (459) 476.

²⁸ R. MORRISON, *We build the road as we travel*, Philadelphia, New Society Publishers, 1991, 11.

²⁹ S. KASMIR, *The Myth of Mondragon. Cooperatives, Politics, Working-Class Life in a Basque Town*, Albany, State of New York Press, 1996, 180.

³⁰ N. NAHAPETIAN, "Fagor, une cooperative mondialisée", *Alternatives Economiques*, n° 291, May 2010 and http://www.alternatives-economiques.fr/fagor-une-cooperative-mondialisee_fr_art_948_49268.html

³¹ A. MENDIZABAL EXTABE, A. BEGIRISTAIN ZUBILLAGA and A. ERRASTI AMOZARRAIN, "Deslocaciones y empleo cooperative. El caso de Fagor Electrodomesticos S. Coop", *Revista de economía publica, social y cooperativa*, 2005, 237-266.

company to Poland.³² Zietek Boguslaw, a Polish union leader, criticized the fact that *Fagorelectrodomesticos* even profited from the sale of several factory buildings that were part of the takeover³³.

In 2008, *Fagor Mastercook* recruited a large amount of temporary workers at very attractive wages and used these low-cost workers for pressing workers with stable jobs to accept wage reductions. The Polish Union *Sierpen 80* protested to this, called attention to booming exports and profits and tried for months to negotiate with the Polish management. On June 2nd 2008 *Sierpen 80* organized a two hour strike that was immediately struck down with (to Polish norms) unseen measures. The repression even hardened when the Basque mother company was alarmed: strikers were licensed and the local manager was replaced³⁴. Another Polish union *ZSP*, referring to *Fagor Mastercook* as a work camp instead of a work place, further illustrated the profit-orientated attitude of *Fagor*. By drawing attention to the fact that the European Bank for Reconstruction and Development and the Polish Government had subsidized the takeover with 17, 5 million Euro each and that *Fagor Mastercook* was granted further fiscal advantages in a special economic zone, the analogy with the attitude of other transnational companies was made crystal-clear³⁵.

Poland was not the only country of expansion. In 2005, *Fagorelectrodomesticos* bought *Elco-Brandt* in France, thereby obtaining the commercial brands *Brandt*, *Thomson*, *De Dietrich*, *Sauter* and *Vedette*. *Brandt* had production sites in France (Lyon, Orleans, Vendome, Aizenay, Lesquin and La-Roche-sur-Yon) as well as in Italy (Verolanuova) all of which were thoroughly rationalized³⁶. The employment on the Lyon site went down drastically; some activities were transferred to Eastern Europe and white-collar employment in commercial services and in R&D was reorganized³⁷.

The Mondragon Group never provided in an explicit social policy for its internationalization strategy. Labour circumstances abroad relate more to local norms and habits and to the practices of other transnational companies than to emancipating cooperative ideas. The Chinese joint venture of *Fagor* and the *Xiangan Stainless Steel Products Company*, realized under the name of *Shangai Minidomesticos Cookware*, is illustrative. Although the intention declaration mentioned International labour Organisation norms, no hard sanctions or controls were implemented to maximize the success of these intentions³⁸.

³² "Fagor Electrodomesticos (Polonia). La participacion de representantes de sindicatos en el consejo de direccion y el estudio de condicionares salariales del entorno in www.multilocalizarse.com/index.php?option=com_docman&task=doc_download&gid=8&Itemid=83&lang=eu

³³ He also mentioned that workers in *fagorelectrodomesticos* received extra money after the takeover, N. NAHAPETIAN, "Fagor, une cooperative mondialisée", *Alternatives Economiques*, n° 291, May 2010 and http://www.alternatives-economiques.fr/fagor-une-cooperative-mondialisee_fr_art_948_49268.html

³⁴ N. NAHAPETIAN, "Fagor, une cooperative mondialisée", *Alternatives Economiques*, n° 291, May 2010 and http://www.alternatives-economiques.fr/fagor-une-cooperative-mondialisee_fr_art_948_49268.html

³⁵ <http://trustcurrencyblogspot.be>; N. NAHAPETIAN, "Fagor, une cooperative mondialisée", *Alternatives Economiques*, n° 291, May 2010 and http://www.alternatives-economiques.fr/fagor-une-cooperative-mondialisee_fr_art_948_49268.html

³⁶ A. MENDIZABAL EXTABE, A. BEGIRISTAIN ZUBILLAGA and A. ERRASTI AMOZARRAIN, "Deslocaciones y empleo cooperative. El caso de Fagor Electrodomesticos S. Coop", *Revista de economia publica, social y cooperativa*, 2005, 237-266.

³⁷ N. NAHAPETIAN, "Fagor, une cooperative mondialisée", *Alternatives Economiques*, n° 291, May 2010 and http://www.alternatives-economiques.fr/fagor-une-cooperative-mondialisee_fr_art_948_49268.html; « Reflexiones sobre la adquisicion de Elco-Brandt », *Ahots kooperatibista*, n°10, april 2005, 3.

³⁸ 42% of the companies abroad were newly created companies, 58% were companies that sold out (partly) to the Mondragon Group. In 2005 MCC counted 138 companies of which 55 were situated abroad as follows US (1), Mexico (6), Brazil (6), UK (4), Germany (3), France (5), Poland (5), Czech Republic (5), Slovenia (2), Italy (3), Rumania (2), Turkey (2), South-Africa (1), China (8), Thailand (1), India (1). In 2008 they counted 129 companies of which 75 were abroad: US (1), Mexico (7), Brazil (5), UK (3), Germany (4), France (9), Poland (8), Czech Republic (7), Slovenia (2), Italy (4), Rumania (3), Turkey (2), South-Africa (1), China (13), Thailand (1), India (1), Russia (1), Portugal (2) and Morocco (1), J. BILBAO-UBILLOS and V. CAMINO-BELDARRAIN, "Proximity matters?"

Of course, it could be worse. In conventional companies, internationalization decisions are taken without even hearing workers whilst *Fagorelectrodomesticos* presented the plans to their General Assembly of worker-owners³⁹. One could even argue that companies like *Fagor* were doomed to pull the card of internationalization to survive, a reasoning the Basque management constantly used to get the approval of the assembly. Being a part of the supplier chain of big conventional companies also drove the cooperatives towards more internalization because this kind of supplier relation often included an obligation to follow the client abroad⁴⁰. Furthermore, yearlong accumulation of reserves, partly realized through their special fiscal treatment, partly enabled by their flexible labour force, created enormous funds to go on worldwide take over excursions⁴¹. Although during the first phase internationalization did not equal delocalization, the differences in labour costs soon proved too seductive to resist⁴².

From the beginning, cooperatives aspired to create jobs and they were very successful in this aspiration during the booming sixties of the last century. The *Caja* even occasionally remitted debts to preserve jobs⁴³. The common practice of inter cooperative transfers of workers during moments of slowdown, prevented layoffs of worker-owners⁴⁴. Additionally the Basque law created a special category of temporary worker-owners in 1993 because even the flexible transferring of people was not enough to resist economic changes.⁴⁵ Although the *Caja* and governments on several levels subsidized the creation of cooperatives, the start-up of a cooperative became increasingly capital intensive⁴⁶, which led the Basque Government to subsidize also the creation of regular jobs within the Mondragon Group⁴⁷. By allowing the employment of up to 30% non-worker-owners,

European Union Enlargement and relocation of activities: the case of the Spanish automotive industry”, *Economic Development Quarterly*, 2008, (149) 149-150; A. MENDIZABAL EXTABE, A. BEGIRISTAIN ZUBILLAGA and A. ERRASTI AMOZARRAIN, “Deslocaciones y empleo cooperativa. El caso de *Fagor Electrodomesticos S. Coop*”, *Revista de economia publica, social y cooperativa*, 2005, 237-266.

³⁹ A. MENDIZABAL EXTABE, A. BEGIRISTAIN ZUBILLAGA and A. ERRASTI AMOZARRAIN, “Deslocaciones y empleo cooperativa. El caso de *Fagor Electrodomesticos S. Coop*”, *Revista de economia publica, social y cooperativa*, 2005, 237-266.

⁴⁰ S. SMITH, “Blooming together or wilting alone? Network externalities and the Mondragon and la Lega Cooperative Networks” in *Wider Discussion Paper*, Helsinki, Unu-wider, 2001/27, (1) 46 en www.wider.unu.edu/publications/working-papers/discussion-papers/2001/en_GB/dp2001-27/

⁴¹ A.M. ERRASTI, I. HERAS, P. ELGOIBAR and A. BEGIRISTAIN, “La internacionalizacion de las cooperativas y su responsabilidad social” *Revista de Direccion y administracion*, 2002, (119), 130-139; A. MENDIZABAL EXTABE, A. BEGIRISTAIN ZUBILLAGA and A. ERRASTI AMOZARRAIN, “Deslocaciones y empleo cooperativa. El caso de *Fagor Electrodomesticos S. Coop*”, *Revista de economia publica, social y cooperativa*, 2005, 237-266; M. LUTZ, “The Mondragon Cooperative Complex: an Application of Kantian Ethics to Social Economics”, *International Journal of Social Economics*, 1997, (1404) 1419.

⁴² B. BAKAIKOA, A. BEGIRISTAIN, A. ERRASTI and G. GOIKOETXEA, “Redes y innovacion cooperativa”, *Revista de economia publica, social y cooperativa*, 2004, (263) 285.

⁴³ A. AZEVEDO and L. GITABY, “The Cooperative Movement, Self-Management, and Competitiveness: the Case of Mondragon Corporación Cooperativa”, *Working USA: the journal of Labor and Society*, 2010, (5) 11.

⁴⁴ G. CHENEY, *Values at work. Employee participation meets market pressure at Mondragon*, Ithaca, Cornell University press, 2002, 89-91; C. CLAMP, “The internationalization of Mondragon”, *Annals of public and cooperative economics*, 2000, (557) 561; D.J. GREENWOOD and J.L. GONZALEZ SANTOS, *Industrial democracy as process: participatory action research in the Fagor Cooperative Group of Mondragon*, Assen, Van Gorcum & Comp. B.V., 1992, 89-97, 114-117, 152; H. WIENER and R. OAKESHOTT, *Worker-owners Mondragon Revisited, A New Report on the Group of Co-Operatives in the Basque Province of Spain*, London, Anglo-German Foundation, 1987, 41-44.

⁴⁵ Art. 26, 2 Ley 4/1993, de 24 de junio, de Cooperativas de Euskadi, *Boletin Oficial del pais Vasco*, n°1993135, 19 July 1993, 06863 and even more specific in the modification by Ley 1/2000, de 29 de junio, de modificacion de la Ley de Cooperativas de euskadi, *Boletin Oficial del pais Vasco*, n°2000146, 1 August 2000, 13708.

⁴⁶ W. WHYTE, “The Mondragon cooperatives in 1976 and 1998”, *Industrial and Labor Relations Review*, 1999, (477) 480.

⁴⁷ W. WHYTE, “The Mondragon cooperatives in 1976 and 1998”, *Industrial and Labor Relations Review*, 1999, (477) 481.

Basque cooperative law supported job creation through take-overs and by incorporating short-term contracts and temporary workers⁴⁸.

It is clear that changes towards more competitiveness and flexibility were more easily pressed through in the cooperatives than in conventional companies, as there was neither accepted syndicalism, nor even a *Consejo Social* on the level of the overall organisation⁴⁹. Although the founders of *Ulgor* acted out of deep social feelings and were members of the *Jurado de empresa* of the *Union Cerrajera*, they did not feel the need to associate with unions in the creation of the cooperatives. This union averse attitude was even aggravated when in 1974 a social conflict, resulting in a strike and even in the exclusion of several members, indicated a lack of representation of worker-owners as workers⁵⁰. The direct motive for the strike of 1974 consisted in the introduction of a revised job classification system, highly inspired by conventional management theories and resulting in a degradation of lower manual jobs in terms of income⁵¹. Although the exclusion of strikers led to a furious public debate in which also the Church took it upon her to defend the right to strike⁵², it was only in 1978, after the death of Franco, that *Ulgor* reincorporated some of the excluded worker-owners⁵³.

Though managers became less union averse in the late eighties, unions themselves were undecided on which strategy to follow either changing the bylaws of cooperatives and going for full representation, or just lobbying to get unionists into the *Consejo Social*⁵⁴. In spite of union criticism becoming stronger since the international expansion and the joint ventures, the official point of view of the Mondragon Group is that there is no need for unions to defend workers' interests within the Group as worker-owners have their own democratic structures⁵⁵. More than only growth however changed these structures. Private company take-overs in Spain as

⁴⁸ Art. 111, 2 Ley 4/1993, de 24 de junio, de Cooperativas de Euskadi, *Boletín Oficial del país Vasco*, n°1993135, 19 July 1993, 0686; A rule which the Mondragon cooperatives even applied in a more strict way upon themselves as they diminished it to 15%, although this self-induced limit was sometimes exceeded F. FREUNDLICH, H. GRELIER and R. ALTUNA, "Mondragon: notes on history, scope and structure", *International Journal of technology, management and sustainable development*, 2009, (3), 7.

⁴⁹ S. KASMIR, *The Myth of Mondragon. Cooperatives, Politics, Working-Class Life in a Basque Town*, Albany, State of New York Press, 1996, 389; P. TAYLOR, "The rhetorical construction of efficiency: restructuring and industrial democracy in Mondragon Spain", *Sociological Forum*, 1994, 184-190,476.

⁵⁰ i.e. S. KASMIR, *The Myth of Mondragon. Cooperatives, Politics, Working-Class Life in a Basque Town*, Albany, State of New York Press, 1996; W.F. WHYTE and K.K. WHYTE, *Making Mondragon, the Growth and Dynamics of the Worker Cooperative Complex*, Ithaca, ILR Press, 1991; H. WIENER and R. OAKESHOTT, *Worker-owners Mondragon Revisited, a New Report on the Group of Cooperatives in the Basque Province of Spain*, London, Anglo-German Foundation, 1987.

⁵¹ Although only to be applied to newcomers this was perceived as a personal degradation; S. KASMIR, *The Myth of Mondragon. Cooperatives, Politics, Working-Class Life in a Basque Town*, Albany, State of New York Press, 1996, 389.

⁵² J. AZURMENDI, *El hombre cooperativo: Pensamiento de José María Arizmendiarieta*, Mondragon, Caja Laboral Popular, 1984, 632-633; H. WIENER and R. OAKESHOTT, *Worker-owners Mondragon Revisited, a New Report on the Group of Cooperatives in the Basque Province of Spain*, London, Anglo-German Foundation, 1987, 39-40.

⁵³ W.F. WHYTE and K.K. WHYTE, *Making Mondragon, the growth and dynamics of the worker cooperative complex*, Ithaca, ILR Press, 1991, 107-112.

⁵⁴ When in 1980 *Ularco* formulated the viewpoint that political parties as well as unions could take up seats in the *Consejo Social*, the addressed parties and unions did not appoint spokespersons; S. KASMIR, *The Myth of Mondragon. Cooperatives, Politics, Working-Class Life in a Basque Town*, Albany, State of New York Press, 1996, 191; W.F. WHYTE and K.K. WHYTE, *Making Mondragon, the growth and dynamics of the worker cooperative complex*, Ithaca, ILR Press, 1991, 107-112.

⁵⁵ In the cooperatives people can adhere individually to a union but there is no union representation within the company, explained by the fact that workers are worker owners, see several websites as i.e. <http://fagorindustrial.com.co/preguntas-frecuentes/110-ique-papel-juegan-los-sindicatos-en-las-cooperativas>; CNT Gipuzkoa. *Presentacion: la experiencia de Mondragón*, 19-20,

well as abroad and joint ventures with conventional companies created an amalgam of different (mixed) companies within the Group. In addition, many workers are not worker-owners. These elements are however never acknowledged in the official discourse and the same dissimulation can be found when Mondragon compares itself with conventional companies, stressing better participation (built on more transparent info), better job security and better conditions for pensions, as well as better economic circumstances.⁵⁶ Cooperative law does not provide in collective defence of interests of worker-owners but, even more problematic, the presence of several different categories of workers has even created a legal problem for the individual membership of unions for worker-owners seen the fact that unions do not accept members that lead others and exclude worker-owners out of social elections⁵⁷. The co-existing of different workers within the cooperatives, as well as the worldwide take-overs of conventional firms with non-worker-owners, led to a new form of “capitalism” within the cooperatives. Worker-owners as a group functioned as employers of all non-worker-owners in a more and more export dependent company⁵⁸. *Eventuales* or temporary workers, a group that has become more important, frequently perform the heaviest and most flexible jobs.⁵⁹

In 2001, a group of critical worker-owners formed a collective in defence of labour conditions and cooperative values in the Mondragon Group. *Ahots Kooperatibista* organized worker-owners with strong union affiliations and included as well older workers of the seventies as young people that came into the group in the nineties. *Ahots* set upon themselves to defend the interests of both worker-owners and contractual workers in the Basque regions as well as throughout the rest of the world. Their goal was to receive recognition as an independent *corriente de opinion* in cooperative life, through the promotion of friendly cooperation with unions and by providing members of the Consejo social with objective information.⁶⁰ They publish a three-monthly bi-lingual review in which they denunciate the loss of jobs in industry and defend an ethical code for internationalization and cooperation with other multinational companies.⁶¹ According to *Ahots*, it is essential for worker-owners as well as contractual workers to have a social council that represents them on every level in the group⁶².

<http://gipuzkoa.cnt.es/IMG/doc/laexperienciademondragon.doc>. This can be considered as conflicting with ILO standards as well as with the EU Charter on social rights.

⁵⁶ It is mentioned on the website that anticipios, the advances on the profits, follow wages in the region and that on top of them, in normal circumstances, workers-owners are rewarded with extra participations in the gains in relation to their function, whereby it is not mentioned that circumstances are not always normal and lately cuts have become normal, following the crisis, Como son las condiciones laborales y económicas de sus socios, comparadas con su entorno? ; <http://fagorindustrial.com.co/preguntas-frecuentes>

⁵⁷ Art. 28 of the Spanish Constitution grants sindical freedom; Art. 3,1 Ley organic 11/1985, de 2 de agosto, de Libertad sindical, B.O.E. 8 August 1985, 25119; Disposicion adicional primera, real decreto 1844/1994 de 9 de septiembre, por el que se aprueba el reglamento de elecciones a organos de representacion de los trabajadores en la empresa, B.O.E. 13 september 1994, 28294-28323; J. ESCRIBANO GUTIERREZ, “Cooperativas de trabajo asociado y derechos laborales colectivos de los socios-cooperativistas”, *Revista de derecho social*, 2010, nr. 49, 97-124.

⁵⁸ J.-F. DRAPERI, “L’économie sociale face à une siècle de pratiques coopératives”, *Revue des études coopératives, mutualistes et associatives*, 2000, 123-135.

⁵⁹ CNT Gipuzkoa, *Presentacion: la experiencia de Mondragón*, 21-23,

<http://gipuzkoa.cnt.es/IMG/doc/laexperienciademondragon.doc>.

⁶⁰ <http://issuu.com/ahotskooperatibista/docs/manifesto-ahots-castellano>

⁶¹ “Deslocaciones”, *Ahots kooperatibista*, n°8, june 2004, 2.

⁶² www.ahotskooperatibista.org.

The crisis of 2008 and the developments since then

While employment in the Mondragon Group rose continuously until 2008, the worldwide crisis ended this rise abruptly. Between 2008 and 2010, there was a reduction of employment of 19%⁶³. The loss of employment was strongest in Spain and within groups of temporary workers and temporary worker-owners⁶⁴. In the last semester of 2012, the percentage of people without a job in the Mondragon region went up to 13, 11%⁶⁵. *Fagorelectrodomesticos* was struggling. Employment declined drastically from 11.000 in 2006 to 6641 in 2011 and in 2012, Deloitte declared them in serious trouble⁶⁶. By then, *Fagorelectrodomesticos* had accumulated a loss of 89, 9 million Euros⁶⁷, a situation that forced them to close an agreement with a Chinese investment company. The latter offered them 20 million Euros but asked for severe cuts in return⁶⁸. Contracts with temporary workers were to be cancelled, some cooperatives of the *Fagor Group* were to be sold to private companies and worker-owners had to accept income losses, all the while fearing for their jobs as some 500 workplaces of worker-owners would disappear. Additionally the Mondragon Group transferred a cooperative fund of 70 million Euros but again worker-owners had to accept a further income loss of 6, 48% and the cancelling of their holiday payments in 2013. In line with the agreement with *Robcam*, a producer and local leader in Coccion, China, *Fagorelectrodomesticos* decided to concentrate its strategy on Russian, Asian and Near East markets⁶⁹.

At the general assembly of *Fagorelectrodomesticos* in December 2012, *Ahots Kooperatibista* presented a pamphlet with 650 signatures, complaining about the lack of transparency⁷⁰, and objecting to the new industrial plan. The plan foresaw in the closing of *Mueble* and *Proyect*, the sale of *Almacen de Gasteiz*, the closing of nearly all plants in France and Italy, the drastic reduction of the production in Mondragon, the sale of *Geyser* and *Edesa* to *Vaillant* and the delocalization of several lines to *Fagor Mastercook* Poland⁷¹. Thus, it would create enormous job losses and would endanger the worker-owner status of many Basque workers⁷². *Ahots Kooperatibista* expressed its disillusion about the fact that its previous warnings for the costs and consequences of the takeovers of *Brandt* and *Mastercook* had been in vain. *Ahots* went even further in stating that these takeovers now resulted in tragic delocalization, thereby transferring the centre of decision-making of *Fagorelectrodomesticos* to China and Germany⁷³.

⁶³ The Mondragon Group communicated herself a reduction from 103.371 workers in 2008 U. LOPEZ, S. LOPEZ and I. LARRANAGA, "Innovación in industrial cooperatives: special features and potential of the Mondragon model", *International Journal of Technology Management and Sustainable Development*, 2009, (39) 40 to 83.859 workers in 2010, <http://www.mondragon-corporation.com/CAS/Magnitudes-Economicas/cifras-mas-resenables.aspx>

⁶⁴ Slides N. ELORTZA, *Impacto de la crisis en la corporacion Mondragon, su gestion y los resultados obtenidos*, Mondragón, Eteo; www.html.slidesharecdn.com

⁶⁵ M. OLABE, "Se estan perdiendo puestos de trabajo en las cooperativas", *Ahots Kooperatibista*, March 2013, 18.

⁶⁶ J.L. MONZON CAMPOS and I. ANTUNANO MARURI, *Cooperativismo y responsabilidad social de la empresa. Veinte casos de cooperativas socialmente responsables*, Valencia, Ciriéc-Espana, 2012, 127; X, "El cooperativismo en la bifurcacion", *Ahots kooperatibista*, n°29, November 2011,4.

⁶⁷ <http://El.Economista.es/paisVasco> on 1/5/2013.

⁶⁸ J. M. RUIZ, "Ahots Kooperatibista ha denunciado la perdida de 500 puestos de trabajo en fagor Electrodomesticos", *Ahots Kooperatibista*, March 2013.

⁶⁹ <http://El.Economista.es/paisVasco> on 13/5/2013 and on 3/7/2013.

⁷⁰ J., "Fagor Electrodomesticos en la encrucijada", *Ahots Kooperatibista*, March 2013, 4.

⁷¹ Where, even in 2011, the average monthly wage was only 350 Euro, significantly less than neighbouring companies were paying; <http://libcom.org/news/go-slow-strike-fagormastercook-mondragon-capital-group-25012011>

⁷² Although with *Geyser* and *Edesa*, a contract with *Vaillant* retained the worker-owner status for a period of 7 years; X, "Panfleto", *Ahots Kooperatibista*, March 2013, 12-14.

⁷³ "Intervencion en la asamblea general de FED (dic.2012)", *Ahots Kooperatibista*, March 2013, 15.

The importance of being earnest, or how it is essential to have governments as partners

Ahots Kooperatibista complains about the manifest lack of critical attention towards the Mondragon Group. This naivety of governments and citizens enabled the cooperatives to move more and more to the right and towards a strategy copying the capitalist system. The main criticism of *Ahots* states that the cooperatives act the same way as conventional companies in their subcontracting relations and in their globalization strategy. They follow the same path as traditional multinationals and, although they started out as an alternative to capitalist business, they degenerated into letting economic targets clearly outweigh social goals. Worker-owners are forced into decisions, without having access to clear and objective information by independent advisers⁷⁴. Yet governments and other institutions lavishly grant prizes. In 2009, *Fagor Mastercook* received the prize of exemplary employer of *Solidarnosc*, out of the hands of the Polish president. That same year *Fagor* received a prize for social responsibility in internationalization from the *Foro de responsabilidad social de Guipuzcoa*⁷⁵.

In line with several other governments in Europe, Spain considers the cooperatives as part of the social economy and grants them a preferential treatment on the motivation that worker-owners enjoy a decisive voice in the way their companies are organized and directed⁷⁶. The Spanish Constitution evaluated the social economy in general and cooperatives in particular as very positive⁷⁷. In article 129 of the Spanish Constitution, the Spanish Government expresses its will to promote cooperatives through legal initiatives⁷⁸. In addition, the Basque government supports the cooperative model and even mentions the role of the Mondragon Group in the Preamble of its law on cooperatives of 1982⁷⁹.

Accordingly, Spanish, Basque and European governments subsidized cooperative employment⁸⁰.

The Spanish government supported the *Ularco Group* and the Basque government invested in Mondragon cooperatives and research institutes like *Ikerlan*.⁸¹ In 1986 the *Direccion de economia social del gobierno vasco* was founded⁸². Representatives of Basque cooperative unions and federations are offered a seat in the Basque superior council of cooperatives, the *Consejo superior de cooperativas de Euskadi, CSCE* a council that groups

⁷⁴ J. M. RUIZ, "Ahots Kooperatibista ha denunciado la perdida de 500 puestos de trabajo en fagor Electrodomesticos", *Ahots Kooperatibista*, March 2013, 6.

⁷⁵ J.L. MONZON CAMPOS and I. ANTUNANO MARURI, *Cooperativismo y responsabilidad social de la empresa. Veinte casos de cooperativas socialmente responsables*, Valencia, Cirioc-Espana, 2012, 130-131.

⁷⁶ J. POLANCO BELDARRAIN, "La fiscalidad de las cooperativas. Un modelo que fortalece los fondos propios", *Cuadernos de gestion*, 2004, (31) 34.

⁷⁷ This is not unusually, also in Italy governments stimulated cooperatives by i.e. granting them orders etc., W. BARTLETT, J. CABLE, S. ESTRIN, D. JONES and S. SMITH, "Labor-managed Cooperatives and Private Firms in North Central Italy: an Empirical Comparison", *Industrial and Labor Relations Review*, 1992, (103) 109.

⁷⁸ Art. 129.2 Constitucion Espanola 1978, *B.O.E.* 29/12/1978, 29313-29424; J. CATANIA and A. CELAYA, "La economia social en el dialogo social. Constitucion espanola y perspectivas", *Revista de economia publica, social y cooperativa*, 2003, (125) 127.

⁷⁹ Exposicion de Motivas Alinea 3 Ley 1/1982 de 11 de febrero, sobre Cooperativas, *Boletin Oficial del pais Vasco*, n° 1982033, 10/03/1982.

⁸⁰ Orden de 6 abril de 1987, *B.O.E.* 08/04/1987, 10499-10500; C. ORTIZ LALLANA, *La prestacion laboral de los socios en las cooperativas de trabajo asociado*, Barcelona, 1989, 4.

⁸¹ R. MORRISON, *We build the road as we travel*, Philadelphia, New Society Publishers, 1991, 205-206.

⁸² I. LIZZARALDE, "Cooperatism, social capital and regional development: the Mondragon experience", *International Journal of Technology Management and Sustainable Development*, 2009, (27) 34; P.A. NARVARTE ARREGUI, "La experiencia cooperativa de Mondragón: estudio de su viabilidad organizacional en el contexto de Euskadi", *Revista de economía publica, social y cooperativa*, 2006, (231) 250-253.

representatives of public administration, of cooperative federations and of the three Basque universities.⁸³ In 1997, the Mondragon Group signed an historical agreement with the Basque government, making the cooperatives a key instrument to realize governmental employment objectives. In 1998, the government of Navarra copied the agreement⁸⁴.

Clearly, the cooperation between the Mondragon Group and governments of different levels is one of the explaining factors of its success. The Basque Government became a partner in the *Caja Laboral* as well as in three venture capital organizations⁸⁵. The Mondragon Groups takes part in European financed projects for innovation⁸⁶ and the Basque Government regularly provides legal tailoring⁸⁷. Evidently, Mondragon leaders are of influence in the regional capital Vitoria⁸⁸. Backed by several governments, the Mondragon cooperatives became even more creative and assertive when, in 2003, they solicited their recognition as employers in the social dialogue⁸⁹. During 2011, the Mondragon Group worked together with the Basque Government for 32 projects of internationalization, receiving subsidies of 586.040 Euros whereby most of these projects targeted China⁹⁰.

The special fiscal regime also plays an important role in the promotion of Basque cooperatives. Cooperatives are classified as cooperatives with and cooperatives without a special fiscal status, a distinction that more or less runs parallel with the distinction between cooperatives that are incorporated under cooperative law and those that are not. Cooperatives with a special fiscal status can lose this preferential status when they practise unauthorized (economic) activities as i.e. paying out too high *anticipios*⁹¹ (more than 200% of the average wages in the sector) or when they employ a too high amount of contractual workers or incorporate an unacceptable percentage of non-cooperative capital. Losing this preferential status can be prevented by asking special authorization or by aligning themselves again for the next fiscal year. When a cooperative has (temporarily) lost its preferential fiscal status this does not exempt them of cooperative law⁹². One of the

⁸³ Art. 143,2 Ley 4/1993, de 24 de junio, de Cooperativas de Euskadi, *Boletín Oficial del País Vasco*, n°1993135, 19/07/1993, 06863.

⁸⁴ G. CHENEY, *Values at work. Employee participation meets market pressure at Mondragon*. Ithaca, Cornell University Press, 2002, 77.

⁸⁵ Mondragon Innovación, Mondragón Desarrollo and Mondragón Promoción; U. LOPEZ, S. LOPEZ and I. LARRANAGA, "Innovation in industrial cooperatives: special features and potential of the Mondragon model", *International Journal of Technology Management and Sustainable Development*, 2009, (39) 45.

⁸⁶ B. BAKAIKOA, A. BEGIRISTAIN, A. ERRASTI and G. GOIKOETXEA, "Redes e innovación cooperativa", *Revista de economía pública, social y cooperativa*, 2004, (264) 265.

⁸⁷ Like when cooperatives were granted the possibility of hiring more temporary workers; G. CHENEY, *Values at work. Employee participation meets market pressure at Mondragon*. Ithaca, Cornell University Press, 2002, 119; or when, since 1999, the law enabled the licensing of worker-owners for economic reasons; Art. 85,1 Ley 27/1999 de 16 de Julio, de Cooperativas, *B.O.E.* 17 July 1999, 15681.

⁸⁸ In 1995, for example, the Basque Government agreed on a new industrial plan for the period from 1996 to 1999. This plan provided for a growing cooperation between government and industry and subsidized the clustering of companies to stimulate quality management, technological development and internationalization. The governmental responsible for industry was J. Retegui, a former manager of the Mondragon Group; M. AHEDO SANTISTEBAN, "Business systems and cluster policies in the Basque country and Catalonia (1990-2004)", *European Urban and Regional Studies*, 2006, (25) 28.

⁸⁹ J. CATANIA and A. CELAYA, "La economía social en el dialogo social. Constitución española y perspectivas", *Revista de economía pública, social y cooperativa*, 2003, (125) 127-133.

⁹⁰ Lainformacion.com on 25/01/2012.

⁹¹ *Anticipios* are the advance payments worker-owners receive on the profits of the company, paid out on monthly basis.

⁹² I.e. Art. 6, 2 and 14 Norma Foral 2/1997, de 22 de mayo, de regimen fiscal de las cooperativas de Guipuzcoa www.euskoop.org/legislacion/06normaforal%202-1997.html; G. AGINALDE, "Specific Tax Issues of the Cooperatives in the Mondragon Group", *International Journal of Technology Management and Sustainable Development*, 2009, (69) 73.

unauthorized acts in the law constitutes in the participation for more than 25% in non-cooperative businesses, a rule that seems clearly incompatible with the Mondragon take over strategy. However, this percentage can be raised to 50% for participations that are complementary or even subordinate to cooperative activities. It can be even raised higher when cooperatives can convince their governments that the participations serve cooperative goals and do not endanger cooperative values. In addition, limits on the amount of contractual workers can be adjusted in agreement with the government⁹³. Clearly, cooperatives that can convince governments of their earnest intentions, dispose over an extensive pallet of possibilities to walk a commercial path and keep their fiscal preferential treatment⁹⁴.

Considering the fact that the preferential treatment is based on the high value governments attach to the democratic organization of the cooperatives, it is somewhat disturbing to conclude a loss of cooperative values and a preference to economic and efficiency goals⁹⁵. Researchers concluded that worker-owners workers felt as alienated from work as standard workers⁹⁶ and that decisions, especially since the eighties, were top down processes. Management seldom offered alternatives to their proposed strategy and regularly silenced critics with the one-liner that there was no alternative seen the market circumstances⁹⁷.

Several legal rules also indicate that individual worker-owners lack a real autonomy in controlling their work, the strategy of their company and their labour circumstances. Voting rights are over fragmented in large cooperatives and several laws enable the substantiation of direct with representative democracy. Additionally, up to one third of the members of the Consejo rector can be non-members. The consequent lack of worker autonomy stands in contrast with the strictly statutory interpretation of the status of worker-owners⁹⁸, all of which seems to be in clear contradiction with the Spanish Constitution that guarantees the right on labour and the right on a workers status⁹⁹.

Some concluding remarks

Mondragon is a transnational enterprise with an employment of 83.569 employees and a sales total of 14.832 million Euros in 2011. What initially started as Basque cooperatives producing for their Spanish *Hinterland*,

⁹³ J. POLANKO BELDARRAIN, "La fiscalidad de las cooperativas. Un modelo que fortalece los fondos propios", *Cuadernos de gestion*, 2004, (31) 37.

⁹⁴ Protected cooperatives can even become special protected cooperatives whereby they are granted an even lower company tax rate and a relief up to 50% of their tax sum; Art.2 and art. 12 Norma Foral 2/1997, de 22 de mayo, de regimen fiscal de las cooperativas de Gipuzkoa www.euskoop.org/legislacion/06normaforal%202-1997.html; G. AGINALDE, "Specific Tax Issues of the Cooperatives in the Mondragon Group", *International Journal of Technology Management and Sustainable Development*, 2009, (69) 71-73.

⁹⁵ P. TAYLOR, "The rhetorical construction of efficiency: restructuring and industrial democracy in Mondragon, Spain", *Sociological Forum*, 1994, (459) 464-465.

⁹⁶ J. GREENWOOD and J.L. GONZALEZ SANTOS, *Industrial Democracy as a Process: Participatory Action Research in the Fagor Cooperative Group of Mondragon*, Assen, Van Gorcum & Comp. B.V., 1992, 8.

⁹⁷ J. GREENWOOD and J.L. GONZALEZ SANTOS, *Industrial Democracy as a Process: Participatory Action Research in the Fagor Cooperative Group of Mondragon*, Assen, Van Gorcum & Comp. B.V., 1992, 77-79; X, "Reflexiones sobre la adquisición de Elco-Brandt", *Ahots Kooperatibista*, n°10, April 2005,3.

⁹⁸The result of a gradual erosion of the labour protection that culminated in the law of 1999; Ley 27/1999 de 16 de julio, de Cooperativas, B.O.E. 17/07/1999, 15681 and Ley 4/1993, de 24 de junio, de Cooperativas de Euskadi, *Boletin Oficial del Pais Vasco*, n° 1993135, 19 July 1993, 06863; M. GARCIA JIMINEZ, "La discriminacion del trabajo cooperativizado", *Revista de economia publica, social y cooperativa*, 2005, 387-409; J. ESCRIBANO GUTIERREZ, "Cooperativas de trabajo asociado y derechos laborales colectivos de los socios-cooperativistas", *Revista de derecho social*, 2010, nr. 49, 97-124.

⁹⁹ Art. 35 of the Spanish Constitution, J. ESCRIBANO GUTIERREZ, "Cooperativas de trabajo asociado y derechos laborales colectivos de los socios-cooperativistas", *Revista de derecho social*, 2010, nr. 49, 97-124.

developed into a transnational corporation with 281 enterprises of which only 111 are cooperative companies. The trend of Europeanization and globalization in combination with the fierce competition they encountered in their traditional sector of household appliances seduced them to takeovers, joint ventures and buy-outs thereby losing their original outlook. Mondragon, and more specifically, *Fagorelectrodomesticos*, the producer of household appliances, form an interesting study object for research on alternatives to the traditional capitalist economy. The inspiring conciliation of labour and capital covers some disturbing contradictions between image and reality.

Partly these contradictions were due to the initial founding cooperatives duplicating the hierarchical division of labour of their capitalist surroundings. Their products mirrored the post war American way of life, their ambitions that of the upcoming Fordist middleclass and their business strategies, promoted by their own cooperative bank, the *Caja laboral*, followed the economic growth model of the West. This growth model, embedded in the trend of Europeanization and globalization opened them up to the world.

With Spain becoming a member of Europe in 1986, a new cooperative structure: *Mondragon Corporacion Cooperativa, MCC*, was created to organize the cooperatives on sector basis. The founding of *MCC Inversiones SA*, a conventional company, especially conceptualized for enabling capital investments in companies outside of the group, completed the process of confronting the challenges of the Europeanization.

Although the Mondragon Group formulated in 1987 their 10 basic cooperative principles, which stressed labour sovereignty in a democratic organization, one cannot but ascertain its becoming more rigid in hierarchy, centralization and formalization during the nineties. Years of working within the capitalist market without questioning the underlying theory of growth demanded their toll. Productivity, efficiency, technical expertise, flexibility and innovation were promoted over the socialization into cooperative ideals, thereby alienating middle managers and workers from the original values. Market-oriented management and the group structure entailed the substitution of the original direct democracy with a representative democracy, thereby shifting from bottom up decision making to top down business strategies.

The economic competition led to investments in low-wage countries and ongoing flexibility demands in the Spanish cooperatives. Worker-owners were asked to agree with lower wages and/or to switch jobs or even work in other cooperatives. A considerable amount of people works in the cooperatives without being real worker-owners, thereby forming a flexible buffer for the economic difficulties. Subsequent changes in cooperative law, in the absence of union delegations and collective bargaining, facilitated this labour flexibility. Finally yet importantly, substantial fiscal advantages supported the business strategies.

Much of the resilience of the Mondragon Group towards the global crisis can be attributed to their cooperative structure being more flexible with labour, to fiscal advantages and to their utopian democratic image. In describing the evolution of the Mondragon cooperatives, the position of temporary workers and the judicial qualification of worker-owners, one cannot but read an ongoing liberalization and deregulation. The fact that many social economy actors develop themselves within the existing economic model and are reluctant to challenge it, consists one of their weaknesses. Governments should be aware that global competition is not only endangering conventional European industries but also the integrity of social economy initiatives. It is evident that some companies intelligently organize themselves in the social economy domain because of its preferential treatment. On the other hand, companies like Mondragon could never have lived through this globalization process if they would have held to their Basque basis. The evolution of Mondragon is a very enlightening illustration of the effect of globalization on the economic structure of the West. All industrialized countries see their industry declining, thereby massively losing jobs. Governments must come to the realization that they must act to prevent this erosion from going on. Free market arguments need silencing. There is no such thing as a free market. Markets are bought with big capital. Governments should clearly decide if they

want to support companies that are moving to lower income countries (or threaten to do so, thereby marginalizing labour opposition) or if they want to sanction the lack of control on foreign labour conditions, thereby re-enabling fair competition.