Part I: Mondragon and Valencia

by Professor R. Briscoe

The two Parts are extracts from reports on a series of study visits to some significant worker Co-ops in very different parts of the world. All of the visits took place between August and December, 1992. In the next Journal, Part II will deal with the Gung Ho Co-ops, which are trying to change the face of economic development in China.

The Mondragon Model

The achievements of the Mondragon Group in the Basque region of Spain are well-known. So many visitors make the pilgrimage to Mondragon that *Co-op Tourism* has itself become a viable business, managed with customary Basque efficiency. Visitors are processed through the factories in batches, with appropriate fees for seminars, guides and translators! In spite of the expense, visitors are usually impressed with what they see.

The first Mondragon factory was launched in 1956 with a workforce of twenty-four. In a little over twenty years,the Group had mushroomed into a diversified network of some ninety capital-intensive Co-ops, owned by more than 18,000 workers. The network also included a Co-operative bank, a polytechnic university, a respected research institution, and a generous social security system. A Co-operative supermarket chain, had spread from the remote town of Mondragon into the farthest corners of the Basque region.

In those first twenty years, the Mondragon Co-ops had been remarkably successful as businesses and as social experiments. They seemed to have resolved many of the dilemmas and structural defects which constrained the growth of worker Co-ops in most other parts of the world. Enthusiasts began to talk about the Mondragon Model as the answer to the problems of post-industrial society.

Sceptics down played Mondragon's achievements, seeing them as unique products of the Basque environment which could not be replicated in other settings. Other doubters saw Mondragon as a child of the booming sixties and seventies when the Spanish economy finally began to take off. One purpose of my visit was to gather some evidence on these issues. How had Mondragon fared in the difficult 80s and 90s?

The Mondragon Group in 1991

Mondragon's Co-operators, like their British counterparts, are for ever agonizing over how to improve the integration of their system. Unlike British

Co-operators, they seem able to design structures which combine the advantages of integration and local autonomy.

In December 1991, Mondragon's Third Co-operative Congress approved the creation of *The Mondragon Co-operative Corporation* (MCC) as the new overall co-ordinating structure. MCC is an integrated federation of Co-ops, designed to enhance the Group's ability to act as a concerted whole, while safeguarding the right of individual Co-ops to manage themselves. It consists of an *Industrial Group,* a *Retail Group,* and a *Financial Group,* comprising 171 Co-operatives in all. The Industrial Group is itself divided into seven divisions which are based on product/market groupings. The nine divisions of MCC (the seven industrial divisions together with the Retail and Financial Groups) are the basic building blocks of the new structure. Each division is headed by a Vice-President of MCC who works with all the general managers in the division, and is answerable to an Assembly of grass-roots representatives.

Hard Times at Mondragon?

The 1991 reorganisation was triggered by the Group's increasing difficulties in an age of recession. The eighties had proved to be a troublesome decade, although to an outsider Mondragon's troubles looked modest indeed. Group sales and employment had continued to grow in the eighties, though much more slowly than before. Job losses,when they did come, were minimal. In 1991, the total number of workers in the Industrial and Retail Groups declined by 1%, falling from an all-time high of 21,241 jobs in 1990, to 21,024 in 1991.

Although overall investments in fixed assets remained close to the 1990 record of 27,287 million pesetas*, a higher proportion of new capital was invested in the Retail Group. Investment in the Industrial Group actually declined by 23.2%. Overall sales of the two Groups increased by 8.8% in 1991 to a record high of 315,172 million pesetas. However, this growth had been mainly in the Retail Group (25.1%). In the Industrial Group, sales had grown by a mere 3.2%. Exports, though representing more than 20 per cent of total sales, had grown by only 1.8%.

The Portfolio Company (PC)

The most controversial of MCC's new ventures is the Portfolio Company, set up to facilitate joint ventures with Co-operative and non-Co-operative businesses. PC is a holding company which enables the Mondragon Group to own and operate non-Co-operative firms with or without the help of other partners.

Supporters claim that PC will increase the Group's flexibility, enabling it to move rapidly on to the international stage. It will also facilitate creative

* *Exchange Rate against £ - 175 approx.*

partnerships with other organisations, resulting in economies of scale and the transfer of new technologies.

Sceptics argue that PC violates the fundamental principle of the Mondragon Group, that organisations should be owned and controlled by those who work in them. They cite the example of the joint venture between *Eroski* (Mondragon's retail Co-op) and *Consum* (Valencia's retail Co-op) which is making it possible for the two Co-ops to expand into France, Portugal, and other regions of Spain. Sadly, these joint ventures will *not* be operated as worker Co-ops.

Overall, it seems that Mondragon is coping relatively effectively even in times of recession. The Group shows a collective ability to respond rapidly and imaginatively to changing circumstances. The creation of MCC was the third of a series of major rethinks in the last decade, suggesting a refusal to rest on past achievements, and a determination to pursue continuous improvement.

The Valencia Group

The world has shown enormous interest in Mondragon but there have been few wholehearted attempts to replicate the model. One of the few self-conscious efforts to do so has been that of the *Co-operative Enterprise Group of Valencia [CEGV].*

From its earliest days in the late sixties, the Valencia Group had followed Mondragon closely, launching a bank *[Caixa Popular]* with an entrepreneurial divison [similar to Mondragon's *Caja Laboral Popular]* and a chain of supermarkets *[Consum]* owned jointly by workers and consumers [like Mondragon's *Eroski*]. In 1977, a polytechnic high school, *La Florida,* was launched as a counterpart to Mondragon's *Eskola Politeknikoa.* But it was not all plainsailing for the Valencia Group. The Spanish economic crisis of 1982/83 caught them by surprise, and led to the failure of a number of Co-ops and a reorganisation of the Group.

It had become obvious that *Caixa* had neither the financial nor the management resources to shelter the Co-ops from recession or to compensate for their lack of professional management. Formal ties between the Group and *Caixa* were dissolved for fear that one ailing Co-op might drag down the whole Group, and some of Caixa's non-banking activities were hived off as separate businesses. The Entrepreneurial Division, for example, became a management consultancy Co-op called *Grupo Coop.*

Valencia had broken away from Mondragon's structure but not from its philosophy and ideals. In July 1987, a Mondragon executive visited Valencia and led a workshop on the future of the Group. As a result of this workshop, a number of businesses decided to revive the Group, and toward the end of 1988 *The Co-operative Enterprise Group of Valencia (CEGV)* was launched.

Today, the group consists of the following Co-ops.

1. Caixa Popular

Caixa, the Co-op bank, is owned by its workers and by the Co-operatives it serves. 71 Co-ops [including the six other members of CEGV] are associated with *Caixa* and it has approximately 110 workers and 17 branches. A new head office is being built to accommodate the bank's rapid growth. Deposits in 1991 amounted to 9.6 billion pesetas,an increase over the previous year of 20 per cent.

2. Consum

Consum has grown readily to become the second largest food chain in the region, with 99 branches as well as 54 franchises which buy from *Consum.* Sales in 1991 passed the 25 billion pesetas mark, an increase of nearly 42 per cent over the previous year. In 1991, *Consum* had a total of almost 1,500 workers and nearly 37,000 consumer members. The Co-op is owned jointly by consumer and worker members. Each group elects half of the Board of Directors, but the President is always a consumer.

3. En Canya

En Canya, founded in 1979, is a worker Co-op which manufactures high quality cane furniture. The firm, which has 25 worker/owners, has been frequently nominated for industrial design awards.

4. Grupo Audit

This is a small accounting firm organised as a worker Co-op. It offers auditing and accounting services to businesses throughout the region.

5. Grupo Consultor

This is a worker Co-op specialising in consulting services to small and medium sized firms. Between them, Grupo Audit and Grupo Consultor have about 50 worker/members.

6. La Florida

La Florida is a worker Co-operative of teachers and administrative staff (about 80 worker/members) which operates a technical high school and an adult training centre. The high school, which specialises in technical and business subjects, serves about 750 students in two shifts: 400 attend junior high school in the mornings; 350 older students attend afternoon and evening sessions. The adult training division looks after the development needs of staff from the region's Co-ops, as well as meeting the vocational training needs of people working and living in nearby villages. Building is under way for a University College of Business Studies for 1,000 students.

7. La Mediterranea

This worker Co-operative, founded in 1978, merged with two other Co-ops in 1982. It specialises in handcrafted glassware and ceramic tiles. In 1991, it had 275 worker/members and sales of 1.3 billion pesetas. Exports account for sixty per cent of sales.

Recruiting New Co-ops

In its efforts to expand, CEGV has drawn up a list of the benefits of membership, as well as a list of conditions which must be met by Co-ops wishing to join the Group. Advantages cited include 1) economies of scale; 2) the effects of synergy; 3) management audit and consulting services to enhance the performance and stability of member Co-ops; and 4) a range of exclusive services [including management training, collaboration between functional specialists, management information systems, study visits to Mondragon, and a press office]. In return for such benefits, member Co-ops must agree to meet a daunting list of conditions. These conditions, based on Mondragon's operating principles, relate to issues such as capitalisation of profits, compulsory investments in group reserves, and limitations on salary ranges.

CEGV is trying hard to encourage other Co-ops in the region to join the existing members. The Group's bank already has another sixty or so Co-ops among its member/owners. If more of these could be persuaded to become full members, the strength and effectiveness of the Group would be greatly enhanced. Unfortunately, in spite of all its efforts, CEGV has not been able to attract a single new member Co-operative since 1988. Increasingly, CEGV is shifting to another growth strategy, i.e. strengthening the network by increasing the scope and the sales volume of the existing seven members.

Clearly, the Valencia experiment has shown that Mondragon can be replicated in a different geographic region and in hard times. However, CEGV's recruitment problems suggest that the Mondragon model is not easy to sell to existing Co-ops. This issue needs to be researched if the Mondragon model is to make progress outside the Basque Country.

The Author

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