Mondragon's Amorphous Cloud Structure:
"Making the whole truly greater than the sum of its parts"

Abstract: Much has been written about Mondragon, but the focus of that writing has been on it as a cooperative and its culture. Comparatively little has been written about its operating structure, decision-making processes, and competitive ability. Direct observation, participation, and interviews revealed an operating structure that has a structured central core, but a highly amorphous shell. To accommodate to this structure a decision making process that is highly decentralized had evolved. Given that most of the approximately 260 coops that constitute Mondragon are small to mid-size, they have developed collaborative relationships among themselves and other coops, both domestic and international that permit them to compete effectively against multinationals. As a result, the whole is greater than the sum of its parts, providing the immediate region with one of the highest standards of living in Europe.

Mondragon's Amorphous Cloud Structure: "Making the whole truly greater than the sum of its parts"

This article focuses on the unique organizational structure, ownership model, and decision-making process at Mondragon Corporation, the world's largest consortium of worker-owned cooperatives. During the 2008 recession, the region of Spain, Gipuzkoa, in which it is most prevalent, had half the unemployment rate of the rest of Spain while the gross domestic product per inhabitant was $43,000 approximately on par with the US. At the same time, Mondragon promotes income fairness by limiting executive pay to approximately 10 times that of the lowest paid employee. By 2014, Mondragon had 74,117 members who generated $13.245 B in revenue. As will become clear, it presents a riddle to those who think that the right way to manage a company is through centralized control, hierarchical structure, and external financing/ownership.

When Mondragon is viewed over its 60 plus years of history, it serves as a long-term demonstration of adaptability to changes in its environment and financial success. Because of its success, many including the United Steelworkers, the Evergreen Coops in Cleveland, and the Magic Bridge Co-operative Management Institute in Korea have looked to it as an alternative model for economic development. Mondragon differs from most coops in the US. Workers of Mondragon both financially benefit and have direct input into its management of it. By contrast in the US, it is the growers, buyers, and customers that financially benefit from the success and have governance authority in in large coops such as Ocean Spray Cranberries, Inc., Southern States Cooperatives, Inc., and Navy Federal Credit Union, respectively. There are worker cooperatives in the US, but they tend to be small. According to the US Federation of Worker Cooperatives 69% of them in the US have less than $1,000,000 in revenues.

While Mondragon includes many small to medium size cooperatives, the combined size and large scope of its overall activities enable it to offer a credible alternative to a traditional hierarchical business model, which is increasingly showing its limits. Broad employee ownership and governance of the coops underlies Mondragon's culture. Renowned scholars from Stanford to Oxford are suggesting that organizations with something different than those dominated by hierarchical structured, centralized governance, and external ownership will emerge as the dominant competitors. In the US, some companies with partial employee ownership, flat structures, and shared governance such as steel firm NUCOR and airline Southwest have emerged as the leaders in their respective industries. Thus, learning how this can be done on a large scale should be worthwhile.

Much of the key to the sustainable success enjoyed at Mondragon can be credited to the unique organizational and managerial approaches that enable it to have the flexibility and dynamism of a small enterprise combined with the strength and synergies present in much larger firms. In this article we will focus on the role strategic *sharing* plays in enabling Mondragon to enjoy the benefits of its unusual organizational structure. Unlike many hierarchical organizations, at Mondragon everything of value and significance is shared to an extent uncommon in such organizations. In particular, we address especially sharing of decision-making, governance, resources, leadership opportunities, knowledge and entrepreneurship, and rewards. The details are based largely on senior management team interviews.

Mondragon: A Brief Background & Development of Its Structure

Mondragon was created from humble beginnings by a priest, Father José María Arizmendiarrieta. In 1955, five of his students who had been trained as engineers acquired a license to build electrical and mechanical products for home use and created "Ulgor," an employee-owned cooperative. Subsequently, acquaintances of the founder began to set up other cooperative enterprises in the area, which soon became loosely affiliated with each other to form Mondragon. One central feature of Mondragon is the "network" or "cloud." Mondragon is not a conglomerate in the traditional sense, but rather an integrated cloud of a large number of cooperative firms. The term "cloud" here is used a metaphor for an organizational structure that is in a constant flux like a metrological cloud and also, it enhances communication like cloud computing. The first generation of leaders of Mondragon triggered the development of this structure by taking the cooperative idea and applying it not only inside the business, but also among businesses. They felt that their dramatically new approach to enterprise was probably not going to be well understood by conventional companies, finance, insurance, and research, so they decided to create their own. They believed also it would be difficult for what were then small firms to prosper on their own over time. They would not only need these key services, but also that if also they would be better able to compete. The core of the cloud started with a cooperative bank in 1959, and then a social security and insurance cooperative, followed by joint training institutions and regional subgroups as Mondragon grew. At the same time, dozens of other employee-owned manufacturing and service cooperatives such as machine tools, automotive components and bike manufacturers, and a grocery store chain began operating as part of Mondragon.

By establishing support services on which all the manufacturing and service coops could draw at the core of the cloud, the leaders could focus on growing the revenue generating manufacturing and service coops. By 1981, a formal incubator program was started to accelerate innovation. The leaders of Mondragon understood that high-quality, high-paying jobs are created by innovative products and services. Like ice crystals come together to make snowflakes in a cloud, the incubator program brought together want-to-be entrepreneurs with the appropriate resources to develop their innovations into viable products and services and for all involved to share in the rewards of their successes. The cloud structure has led to a high rate of innovation and the creation of multiple coops. One other largely unrecognized benefit of the cloud structure, it has allowed Mondragon to defy one of Parkinson's Laws – "Management and professional staff tends to grow at predictable rates, almost without regard to what the line organization is doing." Since everyone has a stake in the efficiency of the organization due to the sharing of profits at all levels and throughout the organization, pressure is brought to bear to keep the central part of the organization lean.

What started in the mid 50's, with a handful of workers making simple paraffin cookers and heaters is now an umbrella structure that includes approximately 260 organizations covering over 20 industrial sectors. They are integrated in what might be termed not just a "cloud" but an "amorphous cloud" structure. Over time, at the periphery of the cloud, some coops drop out while more join in. Some coops actually incubate other coops within Mondragon. Inter-cooperative alliances for specific projects such as investment in specific countries or the need to address the global interests of a specific client/customer will change the shape of the cloud as well.

Insert Figure 1 about here

The cloud is "permanent," but its shape changes to address the environments, the needs of clients/customers as well as the needs of the group's members. At the core, four sub-networks are instrumental for the adaptation/evolution of the organization. These constitute the core structure that allows Mondragon to adapt, innovate, and survive while keeping its coop values. The core is comprised of a) The **Education** network which includes Mondragon University and multiple training and entrepreneurship centers; b) The **Research** Centers and the Mondragon Patent Offices; c) Laboral Kutxa (**Finance**) and d) Lagun Aro, the **Social Security** entity. These four sub-networks have allowed Mondragon both to maintain cohesion and to adapt over a long period of time. . To put this in perspective, between 2009-2013, approximately 28,000 companies and other standalone coops failed in Spain.

The super structure of Mondragon interfacing with the senior management of each coop proposes strategic changes and facilitates the C2C (coop to coop) synergies within the cloud. This large network of coops, which produce goods or provide services, gravitates around the four core elements. Through the collaboration of the four core sub-networks and the C2C network, Mondragon survived the 2008 recession with one notable exception.

That exception was the Fagor Electrodomésticos. It abandoned the strategy of producing a high-quality product. Toward the end, it was making the tub of its washing machine out of plastic, not steel as in high quality ones. Its primary competitor, at that point was a Chinese company, and the primary competitive factor was price. Even with s 20% pay cut the members of that coop voted themselves, it was judged by the core group of Mondragon to be unable to return to profitability. Thus, it was closed with parts of it being sold off. This was done only after $800 million had been spent trying to save it. Some coop members were offered jobs in other coops, and the others were provided wages at 80% for two years and training to help them find other jobs.

The organization's cloud structure is intimately associated with a very special decision making process. One cannot be analyzed or even function without an understanding of the other.

At Mondragon authority and the end results of the business activities of the group (i.e., value creation and cash generated) rest largely in the hands of the employees at the coop level, not with the central core. A highly involving and empowering approach of its many members characterizes the enterprise and widespread *sharing* provides an overall integrating theme. Perhaps the metaphor of a school of fishis an effective way to convey how this strategic approach works – that is, the collaboration mechanism that can be observed in nature among many small fish species who share their fate, commitment and capacities with their peers, they school to secure food and defend themselves against larger predators. At Mondragon smaller parts are coordinated to create some characteristics of a larger entity able to compete worldwide against other large corporations. The required coordination happens frequently at the lateral C2C level without direct involvement of the umbrella organization. Thus, the component coops actually "remain small" to address their specific needs and to retain the coop fundamental values of involving individual workers in the destiny of their organization. Operational decisions are made by those intimately involved. Most likely the decision will be made by consensus. Initiatives for a new product or service is more likely to be initiated at the coop level rather than the core.

Insert Figure 2 about here

Mondragon has evolved into an organization that is in a league of its own. There is no other equivalent worker coop of its size that has survived the globalization process. It has demonstrated a distinctive strength and competitiveness that are not easily explained with traditional organizational theory and logic. Like other complex organizations, such as Toyota or

General Electric, a static analysis of the organization chart, structure and decision making bodies does not reveal what makes the organization so efficient at what it does. Mondragon's successful operation for more than six decades in various industries from low-tech consumer goods high tech manufacturing, has been supported by the combination of this unique structure and decision making process.

Through the shared participation of its various members and coops, Mondragon has demonstrated a sustained ability to (1) adjust to challenges that are very specific to each industry it operates in and (2) compete, survive and thrive in a global marketplace. In the following sections primary areas of sharing at Mondragon will be addressed in more detail including decision-making, governance, rewards, resources, leadership opportunities, knowledge and entrepreneurship.

Shared Decision-Making

The decision making process is special at Mondragon and involves a high level of widespread sharing. The principles are very simple. Fundamentally, decisions are made at the coop level and one requires a consensus among the workers of that coop to make a decision on important issues. These principles would be good enough if Mondragon was a local coop selling basic goods. Over time, however, Mondragon has developed a flexible decision making process that allows the organization to deal with complex issues and complex industries/products in a variety of environments. In addition, this flexible decision-making process is needed to cope with the large number of coops. A traditional structure to manage and control approximately 260 coops across multiple industries would stifle both responsiveness to customers and innovation. Thus, a shared decision making process has evolved.

A key aspect of this process concerns change. Decisions involving a *proposal for changes* can be initiated at any level of the organization. It is a top-down/bottom-up process the authors have observed in other employee-owned organizations with the emphasis on bottom-up. For instance, it can be initiated from the bottom by an employee or a group of employees having an idea for a new product or an improvement to an existing process. Proposals for change can come also from the top. For instance, strategic/organizational changes occurred following the entry of Spain in the European Union. In each case, the intention is that the person or group making the proposal is the most qualified to propose a change.

Indeed, the senior management of individual coops often welcomes suggestions from the senior corporate level of Mondragon regarding vision-based strategic decisions for three reasons. First, they recognize that at the individual level they may not have the full picture of the overall global and complex environment. Second, they recognize that the implementation of solutions to address global issues is likely to require collaboration with other coops. Last, but not least, no matter who makes a proposal, the decision to proceed or not proceed will ultimately remain at the coop level. No strategy will be implemented without the consent of the workers. Of course such empowerment would not occur in a hierarchical organization.

The part of the decision process involving *approval for changes* follows a more complex route. In principle, decisions are made at the coop level. In reality, however, the number of persons/committees involved and level at which the decision is made depend on *the type of decision*. For example, is it a decision to invest or not to invest, or a decision to proceed or not to proceed? What is the amount of investment to be made? And how many financing mechanisms are involved -- e.g., does it involve the coop's cash flow, money from the group's common fund, or financial arrangements with other financial institutions? Are multiple coops impacted by a given decision because they share the same client? Are there any potential synergies to be achieved by coops working together? While there is overlap, it is the separation between "proposal" and "approval" as well as the flexibility of the decision making process that allows Mondragon coops to act like a school of fish school and quickly adjust to threats or take advantage of opportunities. This allows Mondragon to move as a group and to steer its multiple components in the same direction. However, this shared decision making approach has its limits. It's a lengthy decision-making process that assumes a high level of communication between the parties involved, but an abbreviated implementation process since buy-in has occurred up front. Thus, it is strongly believed within Mondragon that the total time required to decide and successfully implement is shorter that when the decision is made centrally with little input from those who are responsible for implementation. It is based also on the premise that geographical and cultural commonality exists among the multiple shared decision makers, which can be difficult to achieve in a global context.

The decision making process for strategic decisions usually involves three levels – the coop, industrial division, and the group. As noted earlier, the length and complexity of this process depends on the size of the project, the number of coops involved and the way it is financed. Also, in specific divisions, depending on the products, the technical solution and/or the clients/customer base can range from a low to high level of integration. Aitor Irure, Member of Mondragons' Standing Committee (the equivalent of a corporation Board of Directors) talked about the shared strategic decision making process as follows:

"The Corporation [the General & Industrial Councils] designs guidelines and the divisions and cooperatives will refine them at their own level. Those guidelines suggest certain requirements. The outcome of our decisions must tend toward the implementation of certain business objectives. For the decision on strategic options and allocation of resources, we have a 2x2 classification of different cooperatives based on two parameters -- attractiveness of the business high/low and growth potential high/low. The objective of each coop is to position itself in the

best quadrant. Of course, this is not always the case, so each coop must develop the best possible strategy depending on its position at a given time."

Given the multiple levels of the decision making process and the need for consensus, the end result can be a painstakingly slow process as noted earlier. Aitor Irure summarized the contrast between the Mondragon to the hierarchical approach in the following statement:

"Many people are telling us that we are slow because we have to go through all these stages. But we actually have strict schedules for this process and, in addition, I believe that a wider participation results in people being more willing to put their shoulders to the wheel. ... [which is different from hierarchical approach] when things are imposed they are received indifferently, they are like...I have to do this because they tell me I have to do it."

Shared Governance

The traditional corporate governance model is hierarchical, wherein the board as a group of experts and experienced professionals oversees management to ensure they are running the organization to maximize returns to investors. Such arrangements have often led to the agency theory dilemma where in a nutshell the agents are working in their own self-interest and not the owners. At the other end of the spectrum, is the workers' coop where all the members are owners and have the right to ensure that the organization is being run to maximize the returns to them. At Mondragon this has led to a collaborative form of governance that adheres to democratic principles wherein the board (or its equivalent) is selected to be representative of and to work for the members. These two models of governance can be viewed as two ends of a governance continuum. In the latter context, sharing information is a primary way Mondragon enables members to be involved in the decision-making process and this simple fact has a profound implication with regard to the governance model of this organization. Information is continuously shared between Mondragon's Standing Committee (a rough equivalent of a Board of Directors) and the senior management team. Members of the Standing Committee are also coop members who have spent most of their careers at Mondragon. In addition, since a decision must be discussed and approved by the members in charge of the subsequent implementation of the decision, there is a 360 degree assessment of each decision made and less opportunity for the senior management team not to behave in the best interest of the organization. This, in turn, has important consequences with regard to the role of the Standing Committee. The Committee can afford to spend less time monitoring the senior management team and more time discussing and probing the strategy proposed by these senior managers. Therefore, less monitoring and more advising from the Committee seem to be the end result in this approach. This offers a sharp contrast with the corporate model where, more often than not, the board emphasizes the monitoring functions to fulfill its legal mandate/obligations (e.g., Sarbanes-Oxley Act).

Finally, the difference in roles has implications also with regard to the composition of the Committee. Mondragon tends to promote its senior managers and appoint its Committee members from within the organization. Therefore, in terms of access to information, there is less "asymmetry" between the senior management team and the Committee. Information asymmetry between the senior management team and the board of directors, which meets only a few times a year, has been a recurrent problem in the corporate world whereas in a coop there is continuous contact.

While there is no agency issue and less risk of information asymmetry, one could argue that the risk of "group think" increases. This would imply a greater need for the appointment of more outsiders with different backgrounds at the Committee level, especially considering the group's objective to expand in new markets and internationally. However, the use of outside directors has been found to increase the power of the CEO because of asymmetry of knowledge between the outside directors and the CEO. If "group think" is occurring at Mondragon, the authors have not observed it. In fact, the Standing Committee has shown its willingness to tackle and make difficult decisions as in the case of Fagor Electrodomésticos discussed earlier.

Shared Rewards

Next to shared governance, shared rewards is probably the second most distinctive attribute of Mondragon and other worker coops. In some coops, profit sharing or patronage in the language of coops is shared equally among all members of the coop. At Mondragon, the patronage varies across coops and is by percentage of pay. Pay is based on approximately 10 levels across the organization. The highest level of pay is approximately 10 times the lowest level. At any given point in time, only 15 to 20 people are included in the highest bracket. The ratio used to be lower, but it has increased as the organization and the responsibility of managers have increased. At this point in time, turnover is relatively low and would not justify further adjustments to the compensation structure[1].

Pay is bench marked against workers in non-cooperative organizations. Compensation packages at the highest level are substantially lower than in the non-cooperative sector. Compensation in the mid-range levels match what is being offered by companies in the same sector while in the lowest level, incomes tend to be a little above those paid in the region.

Of course, monthly income is only a portion of the remuneration of a member. Each cooperative member is a business owner. Upon becoming a member, he/she must pay to own. An owner of a private firm may have to forego compensation if there is no profit. In contrast, Mondragon uses the concept of "advance for consumption." In addition to a monthly advance that is based on labor indexes and the member contribution to the cooperative, each member has a capital account where part of the cooperative profits accumulate until retirement. The capital

[1] The average gap between low paid and CEO 500 salaries is typically not as wide in Spain (1 to 20) compared to the US (1 to 380).

account bears interest, but it can also be reduced if the cooperative experiences losses. In an extreme scenario, if the cooperative goes out of business, the member could even lose his/her initial deposit.

In addition, to the advance for consumption and the contribution to the capital account, each member makes a contribution to Lagun Aro. This is one way the core coops are funded. This social welfare institution was created by Mondragon during the Franco regime because cooperative members were excluded from social security at that time. Today, a coop member is considered self-employed in Spain and he/she makes contributions to the country's social security system, but still continues to contribute to Lagun Aro for extra retirement and health benefits. Both the Lagun Aro contribution and the social security benefits are secured and would not be affected by poor performance of the coop.

At the senior management level, members receive an advance for consumption that is 30% less than the salary they would receive at a local company. The remaining 70% includes a variable part of 20 to 30%. Overall, this is well below what other competitors pay their executives, particularly if the performance of the cooperative is modest. Within the Mondragon group, remuneration at any given level is standardized across all coops, but it can vary between 90% to 110% across high and low performing coops. Thus, although every member receives pay based on their skills, the actual pay received can vary approximately 20% depending on the profitability of the coop.

The other key benefit that is part of the social contract between a member and the cooperative is job security. If a cooperative must downsize during a downturn in the economic cycle or is going out of business, the senior management team will inform Lagun Aro that a certain number of members are not needed, as happened with Fagor Electrodomésticos. Their qualifications and current salary are provided to Lagun Aro. It will then check with other cooperatives to see if there is a need for these members. During the search, Lagun Aro will keep paying 80% of the monthly advance on consumption. Since Lagun Aro is funded by every stakeholder, all parties involved have a keen interest in finding a position for idle members. A cooperative cannot bring on new members if there are redundant members with the same qualifications registered at Lagun Aro. If a lower level position is available, the member is encouraged to take the position and Lagun Aro pays the difference in remuneration between the old position and the new one. Subsequently, the former cooperative could rehire its members if its situation improves. Alternatively, if the former cooperative is out of business, the member could decide to join the hosting cooperative and become a permanent member there.

The current system works, but it is based on the following premises. First, there must be a concentration of cooperatives in a given region to be able to place workers. Second, skills must be transferrable. In that regard, the flexibility, level of education and ability/willingness of the member to meet the requirements of the new position are critical to make the system work. The emphasis on education that the founder of Mondragon, Father José María Arizmendiarrieta, began with his establishment of a technical school in 1943 has apparently paid off. The Basque region has one of the highest educational levels in Europe. Thus, the local workforce has the skills to move relatively easily to new positions.

Shared Resources

Sharing resources is another key ingredient for enabling the "Mondragon's whole to be greater than the sum of its parts." Depending on its size, a member coop has a few options to finance a project or a given strategy. If it decides to finance a project through its own cash flow or cash reserves, then the management team can make that decision without asking anyone else.

On the other hand, if a project is too large to be financed internally, a coop may ask to have access to Mondragon *Inversiones*, the "capital fund" of Mondragon. Thus, the decision to engage in a plan requiring capital funding originates frequently with the producing or service coop and not with a central authority. This contrasts with hierarchical firms where capital funding decisions are made frequently by the central authority. The role of the central core of the cloud is to facilitate the coops and not for the coops to support the needs of the central authority.

This capital fund is financed by contributions to the group made by each member coop. This is another way that the core coops are funded. The utilization of the fund is governed by Mondragon's General and Industrial Councils. Other options include lines of credit from Caja Laboral, the bank of the group, as well as financing from public and semipublic entities such as the Center for Industrial Technological Development[2]. Standing Committee member Aitor Irure, described the process this way:

"As long as you are able to finance a project at the coop level, you are autonomous. You are the one assuming the risk. Hence, you should be the one deciding if you want to take it. Now, if you need the assistance of the group, then the decision will be collegial and the analysis of the merits of the project will be done by those who will finance it."

Thus, decision making is decentralized based on whose resources are being risked.

When an investment made by an individual coop ends up being a poor one and losses are triggered, then the coop assumes the consequences and pays for its own mistakes. This may lead to a reduction in coop members' overall compensation or even their initial investment in the group capital of the coop. Further, during the annual General Assembly, the coop's management may be disapproved by a vote of no confidence by the members. This can result in the dismissal of the senior management team and, on rare occasions, of the coop's Board of Directors itself.

[2] The Center for Industrial Technological Development (El Centro para el Desarrollo Tecnológico Industrial (CDTI) is a Public Enterprise under the Ministry of Economy and Competitiveness which promotes the innovation and technological development of Spanish companies.

Mondragon is not a holding company and the group does not consolidate its results. Each cooperative has an independent legal capacity. The premise is that since each coop is responsible for its own business model and its own governance, it also has to be responsible for its own financing. The group (or coop's) capital comes from the initial monetary contribution made by each employee when they become a member, approximately $16,000 in 2014. From that point on, the group capital increases when the coop makes profits; or decreases in case of losses. Beyond this basic structure based on individual responsibility there are also solidarity mechanisms. When a coop is in financial difficulties, it first must exhaust its own resources, i.e., reduction of its group capital and the "monthly advance on consumption" (salary) of its members. Once it has done so, then solidarity mechanisms are triggered at the division level. At this higher level (four to five coops operating in the same sector of activities), profitable coops may lend part of their cash reserves to a coop in difficulty. A similar mechanism can be triggered also when there is a lack of liquidity in the system. A coop can transfer its excess of liquidity to another coop. The contract between the two parties is administered by the finance department of Mondragon at its headquarters. Mondragon acts as a guarantor in case the coop in difficulty cannot repay loans and/or cash advances.

In addition, at the group level, there are other solidarity mechanisms based on a percentage of profits that are sent every year to two Mondragon mutual funds by profitable coops. One fund, *Fundación* Mondragon, was created at the group level to help coops in financial difficulties and to provide financing to the research centers managed by the group. The other fund, mentioned earlier, Mondragon *Inversiones,* provides equity financing to coops in need of cash to invest in large capital goods or overseas. For investment overseas, the group uses a 60/40 ratio (60% coop/ 40% Mondragon). Finally coops can also secure financing from Caja

Laboral, the core financial institution/bank of the group. It generates its own funds similar to any bank by the interest it collects on its loans. The role of Caja Laboral has enlarged over time. Originally the bank was instrumental in supporting coops in financial difficulties or financing a coop's expansion. However, in 1991 the banking regulations changed and Caja Laboral had to diversify its activities/risks. It is now one of a half dozen financial institutions that provide loans to the Mondragon group. Here again the group negotiates the best conditions possible on behalf of the coops. Caja Laboral also has a team to deal with foreign currencies issues and insurance coverage for the coops.

In earlier times, Caja Laboral (CL) was the main resource provider for the coops and this was a prime objective of the Corporation. However, following the banking reform of the early 90's, the CL's Business Division was transferred to a newly created LKS consulting coop and the Social Security division was transferred to a separate entity called Lagun Aro. Today, activities with the Corporation represent about 5 to 6% of Caja Laboral business. That said Caja Laboral remains an important source of financial resources for the group since about a quarter of its year-end results are invested in Mondragon Inversiones.

While internal sources of finance remain one of the group strengths, for external sources of financing, the situation has considerably deteriorated since the 2008 economic crisis, even at the group level. Mondragon Finance Director Belen Kortabarria, described the situation as follows:

"Banks used to be very proactive with us.... always looking to finance new projects. It was not too difficult to borrow long-term (10 years) and the rate was very low. Nowadays, it's usually half that length, the rates went up and banks have now mutual arrangements. If one bank does not agree with one covenant, the other won't agree either."

The current crisis has highlighted the second weakness of the coop model, particularly in the globalization context. A coop cannot normally raise capital via equity markets. Thus, external financing options are limited and complex to put in place. Overtime Mondragon has changed toward emphasizing products with higher added value to support high wages. Research to support such products is expensive and competitors are larger and more sophisticated. Clients have more complex needs as well and they require integrated solutions that involve the participation of multiple coops. As a result, the size of the financing requirement has increased. Belen Kortabarria continued:

"In the past, coops were used to implement(ing) their own projects. At this stage, we are looking at more inter-cooperatives projects. That means that two or three cooperatives are working on a larger project....and that represents financing requirements of another magnitude."

As the environment is changing, Mondragon has a business model that shows its limits. According to Belen Kortabarria:

"We are faced with the challenge of searching for alternative financing options. For instance, we are thinking about sector funds to attract external investors. We already have a 60€/$82.46 million fund with Mondragon Inversiones, the Basque government and various banks. Mondragon is also considering partners like the European Bank for Reconstruction and Development (EBRD) or the European Bank of Investment."

Given that Mondragon is not a holding company with each coop as a distinct legal entity and the coops lend to the headquarters of Mondragon, such an arrangement presents a challenge to outside lenders in terms of risk assessment. At the coop level, the legal structure is not adequate either. Lending to the coop itself presents its own challenge due to the solidarity mechanisms in place among coops in the same division and between the coops and the Mondragon group. Finally, there is also the challenge of finding financing in foreign currencies when a coop goes abroad. Belen Kortabarria explained:

"Overseas entities are limited liability companies. This structure allows us more financing options. Yesterday, we spoke to a team of Chinese investors. We have a cluster of coops in that country and we are thinking of establishing a fund with local investors."

However, Mondragon's senior management team recognizes that private investors are "impatient partners." They tend to have aggressive growth objectives and rates of return for their investments. Coops are not profit "maximizers" and while growth is an objective, the growth rate targets are not typically as aggressive as publicly held firms. The legal structure of their affiliates overseas offers all the financing opportunities available to other corporations. Unfortunately, investors or partners do not have always the same agenda and the same timetable. The involvement of external financiers has a profound impact on an organization culture and, in the case of Mondragon, this could preclude the transfer of its core values. Belen Kortabarria added:

"At this stage, we are not so focused on starting coops overseas, but to transfer certain part of the cooperative culture within a Limited Company, because you can transfer those values without having to change the local legal framework."

This may be true with regard to the legal framework, but partners and external financiers share different values with regard to the supremacy of workers' rights over capital returns. There is a healthy debate at Mondragon with regard to the status of their overseas workers. For some members, the ultimate objective is to establish cooperatives overseas. The current compromises made to the coop values are just temporary. The globalization process happened too fast. To survive Mondragon had to adjust quickly. The ultimate objective remains, however, to expand the coop model. It is believed by upper management at Mondragon to be just a matter of time before it is realized. For other members, the model has to be adjusted permanently because Mondragon operates in a world of corporations where clients and capital providers are corporations. The globalization process has stretched the current coop model. Belen Kortabarria recalled:

"Some years ago, when we had to transfer our production abroad, it was very difficult to take the decision because our members said 'we want the jobs here, not in other countries.' It used to be a very long process. The Cooperative has its own values but first this is a business and the purpose of a business is to make money by being competitive in the market. The Cooperative

employment can't be a priority above everything else, even at the expense of profitability. Nowadays, that issue is even clearer than before; we are at a stage when profitability is a priority because if we do not have profitability, there is no way of providing employment neither now nor in the near future. A Cooperative above all is a business and it has to be competitive to benefit, both workers and employment."

The comment illustrates the pragmatism of the senior management team as well as the need of Mondragon to adjust its model in response to environmental changes. Workers' rights are at the heart of the coop culture. However, when it is a matter of organizational survival, drastic decisions such as shutting down Fagor Electrodoméstícos and compromises can be justified. To move to the next level and survive among the global players, Mondragon will need capital at a level never before experienced. Looking at the roots and corporate culture of Mondragon, dealing with funds or partners such as private investors, VC's (Venture Capitalists) and /or commercial banks could represent a permanent departure from their coop values. Txomin Garcia (Vice President of Mondragon's Finance Area/Chairman of the Board at Laboral Kutxa) related how Mondragon bought a construction firm in Poland that was listed on the local Stock Exchange. For subsequent expansion, Mondragon was able to tap the capital market in the country.

This investment was a learning experience and a very profitable one. However, recent experiences with overseas partners have already shown that for Mondragon, it is more difficult to transfer its values in a 50/50 joint venture with an industrial partner than when the affiliate is fully owned by Mondragon. With an increasing need for fresh capital, the situation is likely to be even more difficult with external financiers who emphasize return on capital often at the expense of the well-being of the workers. Investing in a listed company may be just an experiment, but if repeated on a larger scale, this would represent a permanent shift in Mondragon's strategy, which could have a far-reaching impact on the group's value as a coop.

Shared Leadership Opportunities

Mondragon offers education programs for members who want to move to leadership positions. Candidates for these programs are usually recommended by the cooperatives. High potential candidates typically have good technical and people skills. Education and special technical skills are important, but not the exclusive selection criteria. Candidates can climb the ladder also by expressing interest and engaging in activities in which they represent their colleagues. During their representation activities, they meet with workers and senior managers, handle problems, and lead and participate in the implementation of their recommendations. This provides the opportunity for the cooperative to assess the leadership potential of these candidates. If members feel that this person deserves to represent them, they are likely to have a chance to do just that. In addition to training programs and on-the-job opportunities to represent members at various levels, Mondragon offers its member "professional mobility;" the opportunity to rotate within and among coops. Mikel Zabala, Director of Human Relations & Social Affairs, explained:

"The Corporation gives professionals the opportunity to move to other coops and through this process, a member feels that he has the opportunity to develop his skills in other areas. Or, if he has been successful, he can be promoted to a higher position somewhere else. Alternatively, if a professional is a good person with potential, but his performance was below expectation because the environment was not a good match, then we will give him the opportunity to move to another coop in an area that is more suitable to his skills."

Since the hiring process at Mondragon takes place almost exclusively in the Basque region and promotions are internal, it is essential to provide mechanisms to detect and groom members with leadership potential. As we have indicated, at Mondragon the decision making process is shared. Consequently leaders would not be appointed and allowed to lead without the respect of the members and they need to lead by example. Zigor Ezpeleta, Senior Manager, Human Relations & Culture Development, put it this way:

"Culture is reinforced through the examples of the leaders, either formal or informal, but their actions are decisive. For the new interns or new members, it's not just a question of asking them to attend a welcome program or asking them to read a brochure about the cooperative model that describes who does what within the organization. No, if he goes to work and his supervisor does not act based on these values, he will think that it's not true, it's not real."[3]

Mondragon's senior management recognizes that the example is especially set at the top. A leader must believe and practice the coop values. When asked about the specific characteristics of a leader, members frequently mention the usual: someone with vision, someone who can share his vision and build support for implementation. They mention also a few characteristics that they see lacking in the corporate world: a good listener, someone who accepts self-criticism, someone who sets the mark and does not demand from other members what he is not prepared to deliver himself. Management style has to be adjusted when a manager is sent overseas, but certain values are universal. Mikel Zabala, Director of Human Relations & Social Affairs, explained:

"There are certain characteristics that we consider universal. For example, listening to colleagues is one quality that everybody finds great. Treating employees with respect. Involving colleagues in the decision making process or the "creativity process" works well everywhere. For instance, in some countries, they are not used to brainstorming sessions. Yet, with training and patience, they have learned new ways to do things."

For better or worse, the selection process leads to relatively homogenous end results: with very few exceptions, leaders at Mondragon are male and from the Basque region. This profile is likely to remain dominant for years to come. Mikel Zabala added:

"We recruit from Mondragon University and other universities in the Basque region. Sometimes, they have a short professional experience, but they are still young. I mean four or five years after graduation, no more than that and they haven't occupied a managerial position in their companies. People who have been a manager or director in other companies have more difficulties in adapting to our way of doing things."

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[3] The Professors who interviewed this senior manager have decades of experience outside academia in government, corporate and banking entities. In their view, the "cooperative music" can be heard only when the senior managers are sincere and open about these values; when they lead by example. This high level of sincerity is a precondition for the trust that exists between the members and their leaders.

Mondragon believes that the new generation of leaders will acquire a global mindset, i.e., the ability to understand other cultures through education and posting overseas. For investment overseas, one of the managing directors is usually a Basque to ensure proper communication with headquarters. While the Corporation has made progress in grooming its next generation of leaders, HR managers acknowledge that there is still plenty of room for improvement in training members before and after they deploy for an overseas assignment. Mikel Zabala elaborated:

"For instance, we have one individual who is in a technical position and we have sent him to a subsidiary overseas. While in the foreign country, he has acquired managerial skills, but when he comes back, we have a position waiting for him. Within the coops, it is sometimes difficult to find a suitable position for people coming back from overseas assignments."

Shared Knowledge and Entrepreneurship

Mondragon has 15 research centers focused on new technologies that have allowed cooperatives to remain at the cutting edge in their respective industries. Researchers are sent to laboratories in Germany, England and the US. Additional exchange programs have been created between the research centers and the individual coops to disseminate knowledge. Mondragon has its own patent office and several patents have been filed with prestigious partners, e.g., GE, Rolls Royce. The corporation is also working on a competitive intelligence system to track evolution in technologies and new products launched by competitors.

In addition to new technologies, the Corporation has a research center focused on management. The main purpose of this center is to acquire knowledge through internal research or observations or other organizations' practices so as to assist cooperatives in the improvement of their own management model. The four main lines of research represent the forward-looking vision of what a cooperative should be. Aitor Urzelai, Director, MIK[4], added:

"The model of an ideal organization is socially responsible and open (i.e., transparent and fully integrated/embedded with new technologies). It must also have members with an international mindset and a strong entrepreneurial spirit."

Mondragon has a good track record with regard to social responsibility issues and the new generation of managers has learned to integrate new technologies in the workplace. However, much remains to be done on the international and entrepreneurial components of the cooperative in the 21st century. With regard to the international mindset, the research center is planning to introduce a post-graduate program that focuses on the globalization process. This program is aimed at mid-level managers who wish to work overseas. Aitor Irure commented:

"To export our cooperative values, it is important to have our people in these countries. Members who understand the local culture and cultivate the loyalty of the local workers to ensure that our management style will be implemented. Our success overseas will depend to some extent on how much of our model we can transfer. Our past experience is telling us that there are two options: a cooperative member who is ready to live abroad and stay as long as it takes or local people who have absorbed our style and who understand that we want to expand in that country while maintaining our management style. I think that a combination of both options will be needed."

As far as the entrepreneurial spirit is concerned, the research center offers two undergraduate programs including one called "Entrepreneurial Leadership and Innovation." In this program, there are currently 30 to 40 students. Aitor Urzelai commented on the process for selecting students:

"We do a casting to select students with the right profile. Of course we look at academic performance and ability to learn, but that's not the only aspect of our casting. The most important aspect of our casting is to assess their level of enthusiasm, desire of doing things, initiative...etc. It's not just having excellent grades"

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[4] MIK is the abbreviation for "Mondragon Innovation & Knowledge," the research arm of the Faculty of Business, Mondragon University. Since his interview, Dr. Urzelai has become Director of Entrepreneurship, Innovation and the Information Society in the Basque Government's Department of Economic Development and Competitiveness.

Groups of 8 or 10 students are formed to start a business. This is not a simulation; this is a real business and through the four years of their studies, students/entrepreneurs develop different skills based on the business activities involved. The startup has all the characteristics of a business including activities such as selling products, marketing, personnel management, legal issues, accounting, etc. Depending on their business needs, students have to learn different skills through courses and seminars. In addition, the students are expected to be proficient in English since during their program, they are also sent abroad to China or India for a period of one to two months.

Last, but not least, a new "Business Acceleration Center" was launched a few years ago. This center looks at potential synergies among coops with regard to their research, clients/customers and products. Javier Sotil, VP of the Knowledge Group,[5] addressed collaborative elements involved:

"Cooperatives are very independent and we have to encourage collaboration. Collaboration is not natural and we have to encourage people to talk to each other. Also, clients/customers are requiring more and more integrated solutions to complex problems."

The collaboration is somewhat easier between coops that already share the same customer base. However, coops that operate in different businesses find it more difficult to work together over the long term even if such collaboration would deliver the most return for Mondragon in terms of acquiring additional clients looking for integrated and global solutions.

Overall, Mondragon is clearly investing substantial resources in the next generation of Basque managers. This will be essential for the Corporation expansion strategy in new countries as well as growing its businesses in existing overseas locations. However, it remains to be seen if training and collaborative efforts will be enough to address the group requirements in a global

[5] Since his interview, Mr. Sotil has become President of the General Council of Mondragon, the senior executive body of the Mondragon Corporation.

context. International mindset, diversity, and executive mobility were not major issues when Mondragon was based in the Basque region. Moving forward, however, these issues will become far more pressing. By 2020, if one excludes the retail business, more than 70% of the group's personnel will be based overseas.

Conclusion

In conclusion, Mondragon has developed multiple ways to stay small operationally while being able to achieve the same synergies and advantages of a large corporation. It has allowed a large enterprise to be unusually adaptive, responsive and innovative. Traditional organizational theorists would look at an organization with approximately 260 operating entities in multiple industries and predict chaos. In contrast radical organizational theorists such as Kauffman, would see self-organization simultaneously reestablishing order while operating on the edge of chaos.

Mondragon is often thought of as one large coop when, in reality, as previously discussed it is an umbrella organization of approximately 260 small to medium size business that are worker coops. The complexity of directing and controlling such an operation would be a weakness if not for the cloud structure and collaborative school of fish strategy that Mondragon uses to secure resources, support its members, and defend itself against outside forces. The organization's competitive advantage is grounded in how decision-making, governance, rewards, resources, leadership opportunities, knowledge and entrepreneurship opportunities are shared across the production and service coops. The sharing of these processes permits the simultaneous reorganization as needed, whereas under a centralized hierarchical structure this would probably never occur. Thus, the small to medium size coops can survive, innovate, and thrive where it would be close to impossible to do so without the Mondragon umbrella. How well Mondragon can transfer these capabilities to its overseas is yet to be seen. In addition, can traditional organizations that have lost market share, shareholder value and sales learn from the Mondragon example or can it be used to develop an umbrella organization for coops elsewhere? All of these are unanswered questions at this time.

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Last, but certainly not least, the authors would like to thank the many worker-owners of Mondragon who generously shared their time and experiences to assist in an accurate portrayal of the enterprise's practices and culture. Without their assistance this article would not have been possible.

Figure 1

Mondragon's Amorphous Cloud Structure

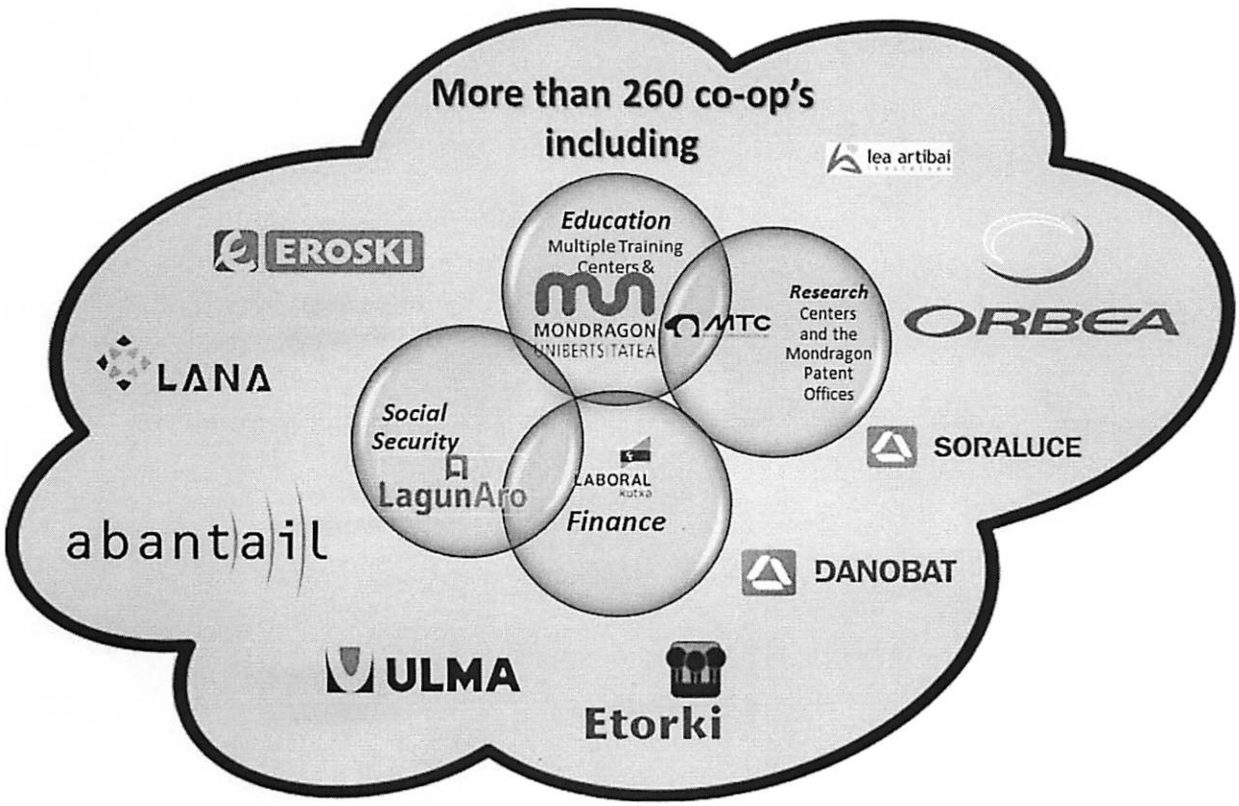
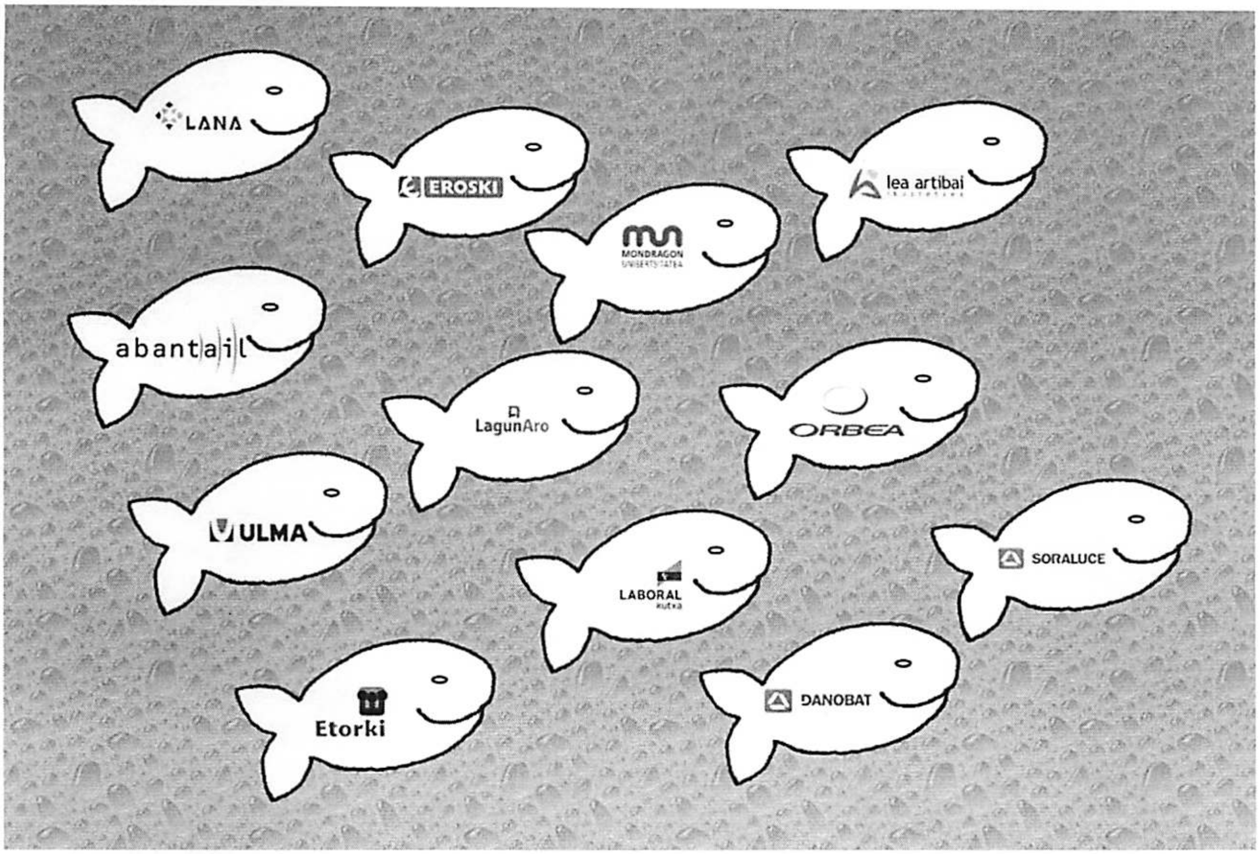


Figure 2

Mondragon's School of Fish Strategy



Mondragon in Asia: Strengths and Limits of the Cooperative Model

Abstract:

Mondragon[6] is an organization that is in "a league of its own". There is no other equivalent cooperative structure of its size that has survived, even strategically embraced, the globalization process. What started in the mid 1950's with a handful of workers making simple paraffin cookers and heaters, currently employs nearly 75,000 people worldwide in an integrated group of more than 250 cooperatively-owned businesses. From its humble beginnings in the Basque country of northern Spain, Mondragon has grown to become an umbrella structure that has achieved global sales in excess of 12.57€/$17.28 billion in 2013.[7] The research is based on interviews with members of the senior management team of the umbrella structure, as well as its overall governance body and senior managers of key cooperative companies in the group. The present paper describes some of the challenges faced by this organization while expanding its presence in Asia.

Expending in Asia:

Mondragon has a presence in Australia, China, India, Singapore, Taiwan, Thailand, and Vietnam. However, the bulk of its manufacturing activities is located in China. In "Basque Mondragon Multinationals in the Middle Kingdom" [2012] Errasti et al. **[1]** mention that Mondragon various businesses include 16 production plants and corporate offices in Beijing, Shenzhen and Shanghai [including the Kunshan Mondragon Park, with 8 production facilities]. Recent numbers **[2]** disclosed by Mondragon seem to confirm the intention to expand the group's activities in the country. In early 2014, the organization had 44 operational units in China: 19 production plants, 10 of them at Kunshan, 19 sales offices and 6 purchasing centers with 3 corporate offices. Overall, Mondragon employed more than 1.500 people and sales totaled US$340 million in 2012.

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[6] http://www.mondragon-corporation.com

[7] All accounting figures reported in both Euros and Dollars based on the exchange rate of 1.3744 on 12/31/2013.

While Mondragon has been present in Asia since the 70's, its first international steps and the expansion of its activities in the region were not part of a strategic plan per-se. With regard to the globalization process it is clear that in its approach, Mondragon was initially more reactive than proactive. For instance, in 1989, COPRECI [a cooperative that makes components for household appliances] was asked to open a production facility in Mexico by its US customers in order to remain one of their strategic global providers. In 2006, the same client asked COPRECI to relocate their factory in China [3]. While the initial motivation was to follow the move overseas of key clients, Mondragon has refined his international strategy overtime. The group current stance can be summarized as follows:

"We are not like multinationals that shift production facilities from one country to another just because it's cheaper to produce overseas. There are only two scenarios that motivate us to manufacture overseas. First, in some cases, we need to manufacture certain products overseas because they complete our product offering. It is not economic to manufacture these products in the Basque region, but we need to have them in our portfolio to support other core products that we manufacture locally. That's the rationale to move to India or China. The second scenario is when we need to be in a country because they are at the cutting edge in our industry and/or to support and meet the needs of our local customers. Operations in Germany and England are good investment examples that illustrate this scenario. For this kind of sophisticated products you need to be close to your customer both geographically to provide support on a timely basis, but also culturally to understand the way they do business and customize the products to meet their specific needs. Except for these two scenarios, we have kept our operations in Spain...Remaining true to our local roots and strong presence in the region is in our mission." Inigo Ucin *Danobat's Managing Director*[8].

[8] Danobat is a blending of two words in Basque and means roughly "all one." Through cooperation and partnerships, Danobat produces a large variety of advanced machine tools, related equipment and turnkey solutions to a wide range of high-tech industry sectors.

In developing further its activities in Asia, Mondragon has faced challenges at four different levels: Brand recognition, financial resources, adjustment to a multicultural environment and its impact on human resource management.

<u>The Absence of a Global Brand in Brand Conscious Societies</u>:

Mondragon does not have a global marketing strategy, at least not yet. Cooperatives operate under their own names and brands. Some of these brands -- more than 30 in some division -- are unknown outside the Basque region. Should all co-ops operate under the same "Mondragon" brand name? For a few senior managers, the answer is *no*. Mondragon is a social model and it should not be treated like a commercial brand associated with the sales of products and machines. Others believe that it would bring better recognition and that "Mondragon" and its logo would be recognized worldwide. For C2B businesses such as Danobat /Soraluce, the co-op name is already well known in the machine tool sector and operating under the brand Mondragon would not add much, if anything to interface with clients who have been doing business with them for years. For Eroski, which has been operating in the retail sector for decades, there may be even a risk of confusing the consumers. Yet, as the cooperatives operate worldwide with other global partners, there is a clear advantage in promoting a global brand. Even for non-consumer products and machines, the need for a global brand becomes more pressing as international clients require more integrated and more global solutions.

"For new businesses, we are trying to leverage our brand. For instance, we are trying to enter the health sector with the brand "Mondragon Health." The market understands why we want to operate under that brand, but internally, we still have internal discussion with the issue of selling products under the name of our social model." *<u>Javier Sotil [President of the Mondragon General Council]</u>*

<u>Financial Resources Challenges & Opportunities</u>:

Mondragón is a conglomerate. This is not a particularly favored model in the corporate world. Even if the group was able to raise equity, the stocks of listed conglomerates are usually traded at a discount. Of course, maximizing shareholders' value has no meaning in the world of coops. Mondragón is interested in increasing value for the benefit of their members, not maximizing it for the benefit of the capital provider at the expense of the employees. In addition to being unable to issue stocks to external investors, Mondragon is a conglomerate that has limited borrowing capacity. The headquarters are not a holding (just a cost center) and each co-op is a distinct and autonomous legal entity. Lending to the headquarters of Mondragon, with no revenue, which in turn would invest in multiple co-ops, presents a challenge to the lenders in terms of risk assessment. At the co-op level, the legal structure does not facilitate lending either. Lending to the co-op itself presents its own challenge due to the solidarity mechanisms in place among co-ops of the same division and between the co-op and the Mondragon group. As a result, and to address the challenge of finding financing in foreign currencies, Mondragon overseas entities had to adjust their legal structure and show some "creativity" in order to secure the requires resources to finance their project.

"Overseas entities are limited liability companies. This structure allows us more financing options. Yesterday, we spoke to a team of Chinese investors. We have a cluster of co-ops in that country and we think that setting up a fund with local investors could be very useful." *Belén Kortabarria [Mondragon Finance Director]*

The Challenge of a Multicultural Environment:

The maintenance of cooperative values and practices among longer-term co-op members and the transmission of these values to new members had been perennial challenges for companies in the cooperative sector. Complex social and cultural dynamics made this transmission to new generations difficult even in relatively favorable circumstances such as those in Mondragón, where many cooperative companies operated in a small geographic area. The size, technological complexity and market reach of the firms also played a role. In the past, there was a very close relationship between workers and different management ranks of the co-ops, many of which were significantly smaller than currently. Meetings outside the work place in the local cafés were frequent and an important part of the socialization process. With larger co-ops, these meetings have become less frequent, although it was still not uncommon to have a dinner with the whole department after a General Assembly meeting or other significant event. In the Alto Deba river valley of the Basque region, where Mondragón was located, work and social life remain closely intertwined. In the evenings and on weekends, colleagues and their families often met socially. This context of social relations in the Alto Deba and other communities in the Basque Country contributed to strong trust and mutual support among co-op members and their neighbors, but the large and growing effects of broader social and economic forces, of contemporary culture – television, popular music, the Internet and social media among them – made the intergenerational transmission of cooperative values a serious issue. In this same context, multiculturalism represented an even more difficult challenge than the potential generation gap. It was one thing to have formal training programs and practices that provided some mechanisms for the transmission of these values from older to younger generations of colleagues from the same village or nearby towns, but it was another thing altogether to address the issue of cooperative values and practices with faraway, mostly unknown co-workers from different countries with different cultures and languages.

Broad employee ownership of the enterprise underlies Mondragón's culture. It is the centerpiece of a values-based business model captured in the company's logo "Humanity at Work." However, over the last 25 years, Mondragón has faced a relentless and rapid globalization process, and the "Corporación" had to adjust its structures and ways of doing business in substantial ways. Danobat's endeavors in China is a good example of the dilemma faced by a successful co-op when doing business in a competitive and global environment that is shaped and dominated by large corporations. For Danobat, a largely consensus oriented decision-making process that worked well in the Basque country with people sharing the same language and culture had to be adjusted when the organization moved overseas to follow some of its key customers and make its cost structure at least roughly similar to that of its multinational competitors. As well, the concept of solidarity and the responsibilities attached to ownership have diverse meanings in different countries. Translating and adapting notions of long-term commitment, open communication and employees' full participation have been challenging to say the least. In the process of adjusting its model to new environments, Danobat and other affiliates of Mondragón made compromises. Danobat and the group now rely on a substantial number of affiliates and subsidiaries that are not cooperatives and an increasing number of "employees," that is, workers who are not co-op members. This two-tier system [members/employees] has a profound impact on the sharing [or lack thereof] of common values. As a result, and considering the group strong culture as well as the importance of communication to make the collective decision-making process works, it should come as no surprise that Mondragon has adopted a very "ethnocentric" approach to its relationships with foreign affiliates [4]. The Chief Executive Officers of the affiliated companies are usually appointed by the parent cooperatives. As well, the decision-making process and the R&D function are highly centralized.

Mondragon managers who have been in the field recall that, near term, the "cooperativization" process will face deep cultural obstacles. Depending on the "cultural proximity" of the foreign workers: 1) The process of "cooperativization" seems to be harder when Mondragon has a JV (Joint Venture) than when they have control of the affiliate overseas. 2) The transfer of cooperative values will take time because cultural norms are very hard for many people to recognize, let alone change, and they have a deep impact at every level in the way an organization does business. An "employee" mentality is widespread in both industrialized and emerging countries. The notion of a sharp divide between workers and managers remains deeply rooted.

Lessons learned in HR:

Mondragon has subsidiaries in over 30 countries and each country presents its own set of challenges. In China for instance, the turnover among workers and managers is high. Employers are outbidding each other to get the best-qualified workers. Mondragon has several factories close to

Shanghai and the group has to offer extra incentives, e.g. housing, extra bonuses, to keep its employees. For affiliates overseas, Mondragon pays salaries that are at market level, but a widespread, at times exclusive focus by employees' on monetary incentives does not sit well with the group's values. The turnover is so high that Mondragon is employing a large number of Basques at the managerial level. In some other part of the world, the word cooperative has a negative connotation. Workers in Poland often believe that such a firm is associated with the Communist Party or in some way harkens back to the Communist era triggering negative reactions. In Brazil, co-ops have been doing business for more than a decade and, so far, few employees have expressed any interest in becoming members even following educational campaigns implemented by the co-op parent company. The idea that a worker has to put money up front to have the right to work in a co-op does not fit well with local labor market traditions. In addition, when times are hard, members are expected to reduce their salaries, at times dramatically, by as much as 20%, to keep their firms operating and maintain their jobs. This practice is not well understood in Asia. The same reaction seems to be pervasive in other countries such as Mexico. Indeed, it is not well understood in conventional companies in the Basque Country or elsewhere, but it is an integral part of how co-ops respond to economic crises, cutting wages in order to maintain employment. To some extent, it seems very hard to push forward toward membership aggressively when the road is long and tortuous and when the main stakeholder, i.e. the local worker, expresses very little interest in joining the ranks of the members.

"This is the dilemma, our predicament. In one extreme scenario, the organization decides not to open to the outside world and preserve a "pure" Basque culture. There is, of course, the risk of 'inbreeding.' This is not really an option if one wishes to survive the globalization process. The other extreme scenario is to quickly open up without having the proper transition mechanisms in place for the organization culture to survive. I like the image of the tree. If the tree has weak roots, if the culture and identity are not preserved, then when the storm comes, the tree will fall. However, if during the same storm the tree is not flexible enough, it will also fall." <u>Zigor Ezpeleta [Senior Manager,</u>

Human Relations & Culture Development].

The challenge during the "globalization storm" is to keep the key elements of the current culture while being flexible enough to incorporate others from different countries. For instance, one of the main issues is compensation to attract and keep talent. Mondragon tends to promote internally and the compensation packages for senior manager is not competitive at some overseas locations. In addition, Mondragon is unable to offer some of its key perks, i.e., job security/membership to its overseas employees. Therefore, should Mondragon adjust its selection criteria and compensation packages to attract top managerial talent in other countries? This may fundamentally alter the motivations and behavior of the managers. For Mondragon, there are two issues. How much compromise to the co-op values is needed to accommodate the change and how fast must this change be implemented? If one excludes Eroski operating in the retail industry exclusively in Spain, it is possible that well over a third of the employees of the co-ops will be based overseas in the next decade.

"We need to educate managers at our affiliates overseas. To reproduce the positive experience that we have here, they need to attract and retain the right people. We need time and we also need to do a better job in promoting the advantages of the co-op values." José Luis Lafuente [Senior Manager, Management Model Development].

When discussing these issues with people who have been in the field, there is also the belief that no matter how keen Mondragon is to promote its values and model; there are certain changes that cannot be rushed. First, affiliates overseas are often unprofitable during their first years of operations and this makes unattractive any proposal to change the status of their workers from employee to member. Also, in some countries, the concept of having to pay a membership deposit to have the right to work is not easy to understand. The fact that a member may lose this deposit if the affiliate does not perform well makes it even a harder sell. Finally, the concept of solidarity may be universally understood in the abstract or, more concretely, in certain domains of social life, but it is frequently not familiar in the work place among employees in many countries. At a more fundamental level, two pillars of the "social contract" between Mondragon and its members are currently missing overseas. First, the legal framework to recognize the concept of the member/owner does not always exist. Second, the critical mass of a large number of co-ops located in the same region that is necessary to guarantee employment when an individual co-ops is in a difficult situation may actually never be reached in certain countries. Ultimately, however, while the pace may be slow, the long-term objective is the implementation of as many of the key parts of the co-op model that can be transferred taking into consideration the local situation.

"I feel that we are not moving fast enough, but we only know how to perform well in structures where people are involved and participate. We would not be the best managers in a traditional, hierarchical corporate environment where there is little participation. Therefore the only way we can be successful abroad is if we can find ways to get the employees involved in the decision making process and interested in the outcome of their work." José Luis Lafuente [Senior Manager, Management Model Development].

Moving forward: From Cooperative Degeneration to Cooperative Regeneration

Mondragon is facing two very challenging environments and each of them presents a specific set of issues. The group's home market is barely recovering from the 2008 economic downturn and the international markets are becoming far more competitive in a global context of slower growth.

The senior management team has proactively tackled the negative effect of the recent economic downturn and implemented various measures to address global changes. However, to handle the rapid evolution of the international environment, various structural modifications to the initial co-op model were made. Some of this tampering was the consequence of a move overseas needed out of necessity, for instance, to follow a key customer abroad or to manufacture a low value added product that is a key component of a higher value-added product portfolio still manufactured in Spain. Other changes were made to adjust to a local environment that was not prepared to accept the structure, concept and/or values of the co-ops.

Clearly, there had to be major cultural differences and legal issues when "exporting" such a complex model overseas. For some senior managers, the Mondragon model has to adjust once again, as it has always done in the past. Modifications were made, but these are considered temporary. Ultimately, given time, the co-op model will endure and expand overseas in a "revised" and "revitalized" version. To some extent, it is an evolution without a revolution. For others, however, the problems are more fundamental. At a deeper level of analysis, the globalization process has presented a set of challenges that are new and very difficult to address with a co-op structure, e.g., decision making process in a global context, multinational clients requiring global solutions that are capital and research intensive. Therefore, globalization has required structural and perhaps permanent changes of the co-op model and its values. As a result, difficult choices were made and the process is far from being over.

"I believe that Mondragon is just a drop of water in the ocean. We don't have the capacity to transform things; we can only offer a different and proven alternative that has worked for decades. In this alternative model there are crucial elements that are in direct conflict with crucial elements of capitalism. Capitalism encourages a mentality that values accumulation of wealth and believes in unlimited growth. However, there are still people who believe that perhaps there are limits both physical and human. The core of our model is first labor, not capital. This means that the existence/achievements of an individual can be measured in different ways. At Mondragon we go for the person. We value more "being" than "having." However, we are pragmatic; there is a social model because there is a business model. If the businesses are not profitable, it's impossible to have a social model. Therefore, if the environment forces us to

move in a certain direction and to compromise certain values because survival is at stake, we will have to do it. But let's do it with pain. As long as it hurts we will remain alert and we will always know where our roots lie. Mondragon has to adapt itself, but if we accept that anything goes, Mondragon will disappear." Zigor Ezpeleta [Senior Manager, Human Relations & Culture Development]

As the organization stretched its model by making various compromises, pain has already been felt. Some of the adjustments are temporary and may be corrected over time, others will permanently change the organization's way of doing business as well as its dealing with internal and external stakeholders.

Up until recently, the international growth of Mondragon in Asia has not been accomplished through international cooperation, but through foreign direct investments such as greenfield plants, joint ventures and/or acquisitions. This was not the traditional cooperative approach. More recently, however, opportunities have emerged to progressively rebuild the two pillars of the "social contract" mentioned earlier. For instance, Mondragon has now built a cluster of cooperatives in two locations in China. This may allow the group to reinforce collaboration and shared values in these locations. In addition, in 2014 "Mondragon University has been chosen to assess the setting up and development of the Cooperative Training Institute of Seoul, called Magic Bridge Co-operative Management Institute [HBM]: an initiative promoted by approximately 400 small and micro-SMEs in South Korea, nearly all of them belonging to the food sector and which have set up themselves up as cooperatives. The Aim is to sow the seeds of cooperativism in the country, train both companies and workers in the filed of cooperativism and promote the creation of cooperatives by young unemployed people"[5] With these recent developments, Mondragon is sending positive signals that, whenever it is possible, it has not given up on its mission to promote the cooperative values and model.

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