

**Facultad de Ciencias Económicas y Empresariales**

**TRABAJO DE FIN DE GRADO  
GRADO INTERNACIONAL EN ECONOMÍA**

**TALKING WITH MONDRAGON  
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## **Abstract**

This paperwork tries to figure out how Mondragon Co-operative Corporation (MCC) did to success in that way. Disaggregating the case in three pieces: the Retail-Industry area, the Knowledge area and the Financial area. Intending to understand the key factors that could contribute to this success; such as the organizational structure of the cooperatives, the economic growth, the cluster effect and the cultural background. To achieve this propose the paperwork is organized in three interviews with people from the different areas of Mondragon. It's an inside job that captures the spirit, culture and behaviour of the workers. Because Mondragon group is more than a company, is the legacy of Father Arizmendiarieta and he's vision of contribution to the society. The success of MCC is not a matter of numbers and sales, is about the individual and collective development of people. It is humanity at work, as their slogan says.

**Key words:** Mondragon, success, organizational clockwork, internal democracy, knowledge, entrepreneurship, finance roof, catharsis, autonomy, synergies, solidarity, equal distribution

**Acknowledgments:** To my parents for allowing me to use the family car to travel to Irun and Mondragon; to Goyo Yoldi, Aitor Lizartza, Larraitz Sein and Josu Arraiza for their interest and predisposition to help me; to Mar Rubio and Joseba de la Torre for guide me on this journey and to all those friends that helped me with ideas, advices and influences.

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## 1. TALKING WITH MONDRAGON, HOW DO I GET WHERE I GET.

It was January 2014 and I was about to choose my final degree project. I knew that I wanted to do something that I liked. But I wasn't totally sure about what. I didn't want to choose from the proposal of all the projects, willing to get something interesting. I decided to take advantage and think about something that I would like to talk about. So I decided to talk about cooperatives. More specifically about the Mondragon case. Unique in the world, and just 131 kilometers away from my home. My first thought was: why here? Is Mondragon unique just because chance or is there any other factor behind which explains the success of this group? My first impression was that Mondragon was the result of a dynamic process, the Basque industrialization. This was the key determinant of this cooperative group. The variables that I perceived were: the organization of this companies, the economic growth of the industry at that time, the cluster effect and the cultural background. So I started to research at the literature, reading what other authors wrote about Mondragon<sup>1</sup>. And I found that most of the articles were wrote from the outside, with no deep relationship with the group. Mostly they were all good macro reports, talking about numbers and rates, but not sediment indeed.

So then is when I decided to talk with Goyo Yoldi, thanks to my proyect coordinator Joseba De La Torre. I arrange a meeting with him at a café in Pamplona, he lived just 2km away from me. And talking with Mr Yoldi I could learn ad know many little not empirical things, not numbers, not ratios, but ideas. Thank to this different approach of Mondragon I decided to organize my project in this way. Three different conversations with people from three areas: Retail, Knowledge and Finance. I would have liked to talk with someone from the industrial area, especially form Fagor, but thanks to Mr Yoldi's experience with the industrial area, due to his position at Eroski, I get a pretty good view of what Mondragon Corporation is and how it really works. At the end this is nothing but a colloquial talking with some people from Mondragon, but I tried to decant the essence of the ideas I get, and make an analysis of this case. I traveled over 450km to Mondragon Unibertsitatea first (Bidasoa campus at Irun) and to Laboral Kutxa's central office at Mondragon-Arrasate (the matrix of the group) and I have made a filed study. Talking with Mondragon.

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<sup>1</sup>Flecha and Santa Cruz (2011)  
Arando,Freundlich,Gago, C.Jones and Kato (2010)  
Clamp and Alhamis(2010)  
Luzarraga,Aranzadi and Irizar (2006)

## 2. A BRIEF HISTORICAL INTRODUCTION TO MONDRAGON.

Right now, many experts and economists are questioning the business model of Mondragon Corporation. The main reason? The shutdown of Fagor, the flagship of this cooperative holding. Due to this crisis it seems like the cooperativism is not working anymore and all those people who believed in it are now so wrong.

But what is really going on? Is the decline of a whole business model or just the crash of one cooperative? Are the cooperatives still feasible or not? There are many circumstances involving this issue of Fagor. First at all Spain is suffering the worst economic crisis of his recent history. A huge housing bubble has devastated the Spanish market. And just as a matter of fact Fagor was producing domestic appliances for the kitchen, cleaning and outdoor uses. There may be a link between the housing bubble and the shutdown of Fagor. But many sceptics may still argue that the problem is the cooperative model and the internal democracy of this system. Due to this democracy, hard decisions were not taken during difficult times and this led to an announced disaster. I believe that there are both internal and external situations that may have provoked the shutdown.

Many voices inside Fagor talk about a terrible management of the company during the last 10 years. Especially the acquisition of the French “Brandt” rival, an operation which cost 162 million of euros, that duplicated the size of Fagor just 3 years before the crisis<sup>2</sup>. After 2008 with no access to credit and no domestic market, Fagor was in a real bad situation. It was a matter of time that this huge whale stranded at the beach die choked because its own weight. The managers try to save the situation saying that the mistakes that condemned Fagor were taken many years before.

Fagor was facing globalization, the domestic and global crisis and a delicate financial situation (about 850 million euros in debt). It is curious that some years before General Motors faced a similar situation in the USA but nobody questioned the capitalist business model. Anyway Mondragon Corporation is still there, one of the world’s largest industrial cooperative holdings, with 289 cooperatives and more than 80.000 workers facing the issues of this modern times. Many people wonder how did they succeed and we have to look back in history to answer this, back to the 1950’s, and observe what, how, where and when they succeed.

Mondragon was created in the Basque region of Gipuzkoa in a town with homonymous name called Mondragon-Arrasate ( in Basque). It started as the result of the

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<sup>2</sup> Máiquez,(2013)

efforts of the priest Jose Maria Arizmendiarieta at the polytechnic school of Mondragon. Five of his students following his advice decided to build the first cooperative on 14th April 1956 ,Ulgor by mixing their names (Usatorre, Larrañaga, Gorroñoigoitia, Ormaechea and Ortubay).<sup>3</sup> These men put their savings and trusted each other to make a cooperative. But this was not enough and they had to ask for money in form of loans to all their pals from the town. They collected about 11 million pesetas, a huge amount for that time. This showed the implication of all the community in this project. This was the first stone of Mondragon corporation, many others come after.

This early Mondragon Cooperative Corporation (MCC) kept growing until they reach their financial roof. Due to the financial situation of Spain by the mid 1950's they decided to create a financing cooperative called Caja Laboral Popular on 1958. This played a very important role in the development of Mondragon. Thanks to this financial arm, cooperatives did not have to depend anymore on the government banks to finance their situation. And they channel people's savings into the cooperatives for R+D and creation of other cooperatives. With zero interest loans to each other, Caja Laboral becomes the backbone of all the cooperatives. Mondragon Cooperative Corporation (MCC) was born.

By the early 1960's some cooperatives were created to meet Ulgor's necessities. A new cooperative matrix called Ularco was created. Represented by Ulgor, Fagor Arrasate and Copreci. These three cooperatives worked together but with independence from each other's operational framework. They all share the same cooperativist structure, this is, they helped each other with the " know how". As a result of the plan to split Ulgor, the Electronics Division was turned into a new co-operative called Fagor Electrónica, S.C.I. It became the fifth co-operative enterprise to join the Ularco Co-operative Group on 1965.

Until the 1973 MCC had an fast growth. By 1972 Caja Laboral had over 100.000 savers, a reflection of the rapid consolidation of the credit-cooperative. And that same year one of MCC cooperatives, Arrasate, was doing turnkey installation for a production plant to manufacture welded tube in Tripoli (Lybia). After 1973 crisis, many cooperatives suffered and they had to reinvent their industry. But ,in spite of that, there was an increase in net employment in the co-operatives as a whole. Mutual support from the co-operatives and the magnanimous attitude of Caja Laboral, in short, Solidarity, was the key to their strength and this Solidarity has been MONDRAGON's main tool for dealing with difficult and uncertain

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<sup>3</sup> Mondragon Corporation web site (2014)

times. As *Father José María* maintained: “*Nobody in need should be left helpless but neither should we protect, without distinction, those who act diligently and with caution and those who show no concern about things that should not be neglected*”.<sup>3</sup>

After the 1973 crisis the whole Basque Industry was renewed and reconverted. (Torres Enjuntó) and this was essential for the growth that came after. The reconversion of the industry started in 1981, a bit late for the industry but anyway it was key. Just looking to the next figure we can observe the exponential growth of MCC in 20 years. They multiply by 4 the number of employees.

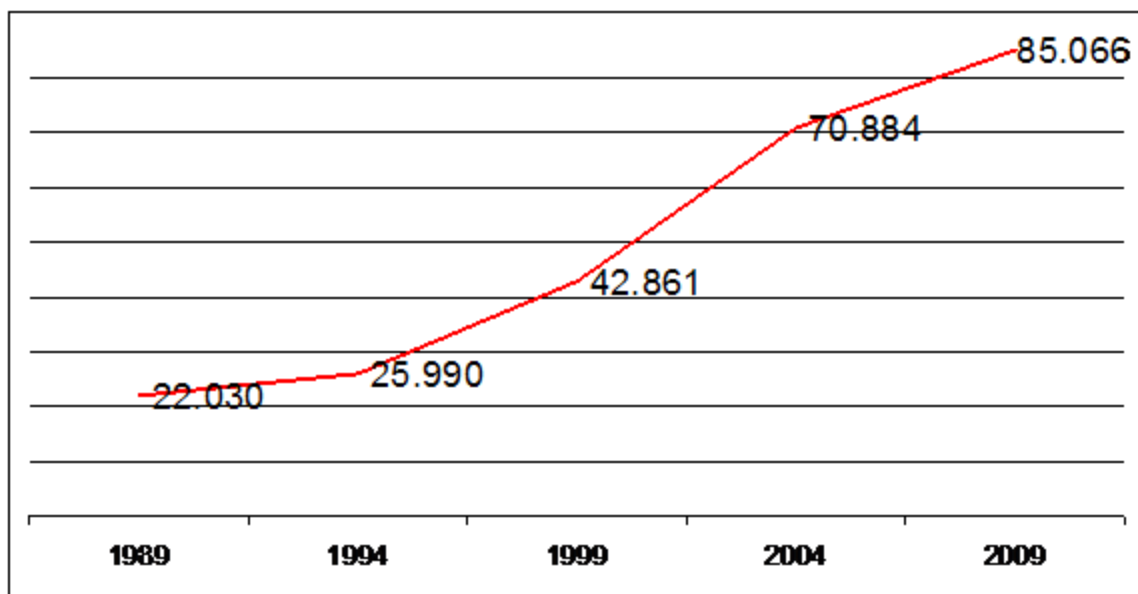


Figure 1: Evolution of Mondragón Corporation employment.

Source:ex-nova Adaptation form MCC-2005

When people think about the fast growth and the success of MCC they don't look with an accurate historical perspective. The fact is that MCC was created during an early stage of the Spanish economic growth, in an autocratic state. Franco's dictatorship closed the borders to international trade so the industrialized region of Gipuzkoa had no rivals for the goods it produced. They were (with other industrialized areas of Spain) the only sharks of the sea. In fact, looks logical to think that this corporation would not be created during the first years of

after the Civil War with no demand or any market or at the 1990's with a mature national industry facing the globalization. Looking to the next figure we can observe that the best stages for developing a business are the end of embryonic stage and the beginning of economic growth.

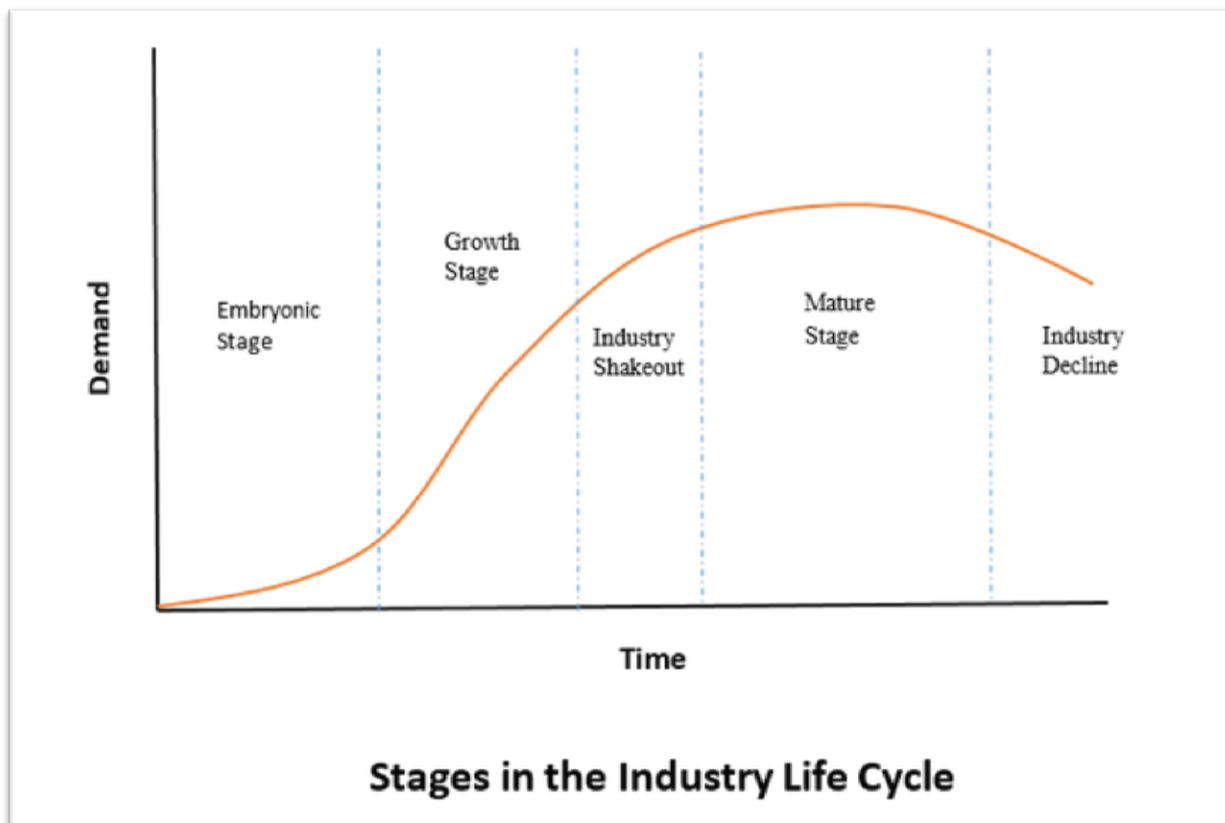


Figure:2.Source: Michel Porter's industry life cycle.(1980)

I want to pay attention to another fact: the cluster. Looking to Michel Porters<sup>4</sup> definition: “Clusters are geographic concentrations of interconnected companies and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to competition. They include, for example, suppliers of specialized inputs

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<sup>4</sup> Porter (1980)



such as components, machinery, and services, and providers of specialized infrastructure. Clusters also often extend downstream to channels and customers and laterally to manufacturers of complementary products and to companies in industries related by skills, technologies, or common inputs. Finally, many clusters include governmental and other institutions such as universities, standards-setting agencies, think tanks, vocational training providers, and trade associations that provide specialized training, education, information, research, and technical support.”

And being a cluster was essential at the development of this corporation. The knowledge sharing, the mutual help, financial assistance...etc. The cluster effect played a very important role. That cooperation between them, the proximity, the impact on the local economy, the synergies they created and an aggregate effect against competitors was a perfect condition for success.

But there is also a necessary condition which can't be measured in an empirical way. And is the cultural background of the society where MCC was established. Looking at Hofstede's<sup>5</sup> cultural dimensions we expect a low power distance, a collectivist society and a long term orientation. And this dimensions can be find in the Basque culture. A culture with a collective view of work, where farmers use to work cooperating in a traditional way called “Auzolan” (literally “neighborhood work”). This cultural factor helped transferring that tradition from the agriculture to the industry.

So let's look insight this key variables on MCC succeed, cooperativeness, being a cluster, the economic growth and the cultural background. For this purpose we will interview three members of MCC. One from the industrial side of the corporation, another one from the financial side and the last one from the educational side, from the University of Mondragon.

Thanks to this different views I will analyze the factors of success from a different way. We won't look at empirical data, like sales, growth and investment. But it will focus on human factors. Talking with Mondragon I tried to understand all the factors, and get some conclusions and ideas from this.

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<sup>5</sup> Hofstede (1983)

### **3. FIRST TALKING, A CUP OF COFFEE WITH EROSKI.**

Goyo Yoldi is a 61 years old man, which has being working 30 years at MCC. He has being at Eroski, the retail business off MCC. But he also has being in a close relation with many MCC industrial firms such as Fagor. He was Logistics Platform Director for several years, and he was in charge of the warehouse logistics. He has a large experience with suppliers and manufacturers due to this particular job. I will present now the key factors of MCC according to what I learned from this interview.<sup>6</sup>

#### **3.1. The Organizational clockwork of MCC.**

Being a cooperative is not enough to get competitive advantage, many cooperatives are not so flexible, they have a slow internal democracy, decisions are made really slowly and this becomes in a negative aspect of the business. Due to many problems among partners to choose proper governing and directive councils the cooperative gets stagnant. Is not easy to match all the members preferences and wishes and make it work in the same direction. Many cooperatives die due to internal problems and organizational ones, instead of market problems.

But this is not the case of MCC, they key factor of MCC is on it's flexibility and fast internal democracy. The cooperatives are all identical, and they have all the same clockwork. They are divided in three councils plus the general assembly. The general assembly chooses both the Social and the Governing Council. Social council has the liability of looking after the social conditions of the partners. Governing Council has the two duties, first one to choose a Management Council and second to approve the decisions of the managers. They key of success is flexibility and fast decisions making.

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<sup>6</sup> Pamplona 18 of March of 2014

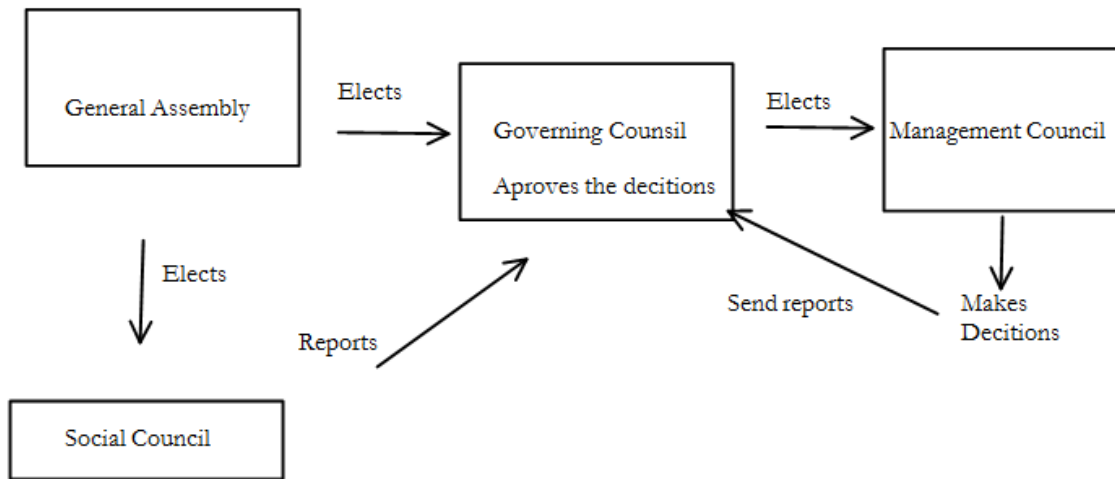


Figure 3. Organization of MCC cooperatives. Source: Own elaboration. (2014)

According to Mr Yoldi the key factor was a good relationship between the Governing council and the Social council. Because usually there is a conflict of interest between them. People for Social Council are more reivindicative, is the equivalent to the Workers Union of any firm. But a cooperative is not like any other firm. There are no strikes, because they are all partners.

Is also well known among the MCC members that Fagor was in an eternal argue between this two councils. They never worked in a fluid way. They always had some misunderstandings, and due to this, the decision making was not so efficient and fast.

There is also another mechanism to make things work better between these two councils. They usually offer the chance to be part of the Governing Council to the more tough minded members of the Social Council. In this way, they could see all the data, numbers, books, expenses and incomes in a different way. Due to this experience, they always changed their mindm and they understood the Governing Council decisions. Many times they decrease they payroll amount to adapt expenses to negative economic periods. And this was thanks to the good relationship between these two councils.

### **3.2. The cultural background of MCC: Formation, the group identity and the solidarity.**

According to Mr Yoldi, another key factor of MCC is culture. And culture in three different ways. The first one, continuous formation of their people. They never end learning. There is always a course to do, a master to study or a experience to learn. And this is key and fundamental. There is no place in MCC for a lazy behaviour or accommodation. They need to know. Know more and more. To beat rivals, to do things better and different and to be competitive. They have to understand business matters, accounting, logistics , marketing or human resources. They can not be just workers, because they are not just workers, they are partners. And is their duty to be competent in all subjects. Mr Yoldi told me, that once he met a butcher woman from Eroski, and she talked him about accounting matters like a Deloitte consultant. And that is the key of MCC. To let partners grow with knowledge and formation.

They also practise a great transparency among them. They show all the available info to the members. In this way if you give knowledge and formation plus all the info about the company, you make the decision making much more clear for all.

Regarding to formation, Mr Yoldi marked one of the foundations of MCC. And is that thanks to that formation, the directors and managers are all people from inside the organization. People that started working at MCC with 17 or 19 years, with a huge experience and a big implication on the cooperative. This idea of the quarry managers is fundamental for Mr Yoldi. In his opinion only in this way managers are completely implicated and they try to make decisions thinking on the group and not just on their bonuses or personal profits. Related to this matter Mr Yoldi said that Fagor was not doing this on the last years, they were hiring professional managers from other companies or with academic credential at important universities. They forgot about the quarry and they paid it. Because this professional managers did not think on a team basis but on their personal interests. And they doom the cooperative to a long run disaster. Taking inappropriate decisions the common interest.

Another important cultural factor is the idea of being part of a group or team. The feeling that you are not just a worker but a piece of something bigger. To translate this into a successful company is one of the key factors of MCC. In many firms managers try to achieve this goal, to make the people feel part of something. But this is really difficult if you are just an employee. But in MCC they are all partners. And this makes the difference. About 80% of workers are partners and the new ones have the chance to become part of it if they want. In this way workers look for the group and not just for themselves.

They understand the “Common Good” concept and they feel better for that. This makes the everyday work much better. They commit and implicate themselves much more than in any other company. This is essential for the success. But to achieve this group feeling they need solidarity. This is the headstone of MCC. The foundation of Father Jose Maria’s philosophy.

Solidarity in many aspects. Among the workers, among the different cooperatives of the MCC and with the environment. In this sense MCC has a huge christian influence on his foundation. And it may be thanks to Father Arizmendiarieta that this idea prevails. One example of this solidarity is the bankruptcy of Fagor. MCC is reallocating the former workers of Fagor in other cooperatives. Or when Fagor was in a bad financial situation MCC tried to fix the problems with a bailout to Fagor. The ideal of helping each other is deeply implemented on MCC. And this gives a meaning to all the culture of the cooperative. In this ideal.

Yoldi said that at MCC money is not a target or a goal but a resource. They want to improve their lifestyle , their kids’ education, their health care , their life insurance ...etc. Of course that they look for money, but not with the eyes of the owner of some shares of a big corporation. Money is but a financial resource, money by itself worth’s nothing if it doesn’t improve the life of partners. They know that they have higher salaries than any other worker at the same job. And they know that they are part of a real middle class, with a comfortable lifestyle.

### **3.3. The competitive advantage of MCC.**

To summarize the whole ideas Mr Yoldi and I talked about the competitive advantage of MCC against other firms and corporations. I would like to explain which factors are essential to achieve this competitive advantage and how they interact with the MCC philosophy.

The first one is a better adaptation to the environment and to the market. As I explained before this adaptation is due to the flexibility and the efficient management of the cooperatives. Thanks to the unique way of organization and fast decision making of the Governing Council. This wouldn't be possible without a strong internal democracy and the confidence of workers on their representation at the Governing Council. This is a powerful tool that makes a difference against any other company.

The second one is a higher implication and commitment of workers and managers. Due to that group feeling and good formation they received. This makes this ship able to face the worst storm. They are able to reduce the payroll themselves and understand why. They never organize and strike and stop the production. They are able to work more hours if needed. They take care about expenses and look after every cost they incur. Is a non-sense for them to waste resources or time because they know that they are all partners. And there is not a huge difference among partners. The lowest wage of the MCC is about 1250€ and the highest one is only 6,25 times higher. Some people may think, how is possible that a top manager will only earn 8000€ per month and won't go to any other firm in which he will get much more? Well this is thanks to the quarry managers and the group feeling. 8000€ per month is enough to live. And they are aware of that in MCC. That is way they prefer to work at MCC and not anywhere else.

To achieve this success Mr Yoldi remarks one last idea, the leadership. Since the first beginning of MCC leadership has being essential. This entire corporation would not be possible without the strong implication of Father Jose Maria Arizmendiarieta. And this leadership is still the engine of MCC. Managers are leaders because they push harder than the others and they get the respect from the rest. People know who choose for the Governing Council because they see them as leaders. There is a huge difference between leader and boss.

#### **4. MONDRAGON UNIBERTSITATEA A INSIGHT VIEW TO THE FUTURE.**

My second interview<sup>7</sup> took place at the Bidasoa campus of Mondragon Unibertsitatea (MU). I interview two teachers or coaches as they call to themselves, Aitor Lizartza and Larraitz Sein and I discovered a different aspect of MCC. Part of my conversation was about the same ideas I'd talk with Mr Yoldi, but also I went insight a philosophy that was new and surprising for me.

Relating to the organizational part, the continuous formation, the cultural behavior, the money as a instrument and not as a goal and the leadership the point of view of Mr Lizartza and Mrs Sein was the same. Thats why I will avoid that part of the interview and I will focus on what we talk about many new concepts of what MCC, MU and Arizmendiarrietas legacy means. The rebirth of Arizmendiarrietas idea of work, solidarity and society.

##### **4.1. About Mondragon Unibertsitatea (MU) and its philosophy.**

The University was created by the association of three educational cooperatives Mondragon Goi Eskola Politeknikoa "Jose M<sup>a</sup> Arizmendiarrieta" S.Coop., ETEO S.Coop. and Irakasle Eskola S.Coop., which nowadays constitute the University's two Faculties and School. Polytechnic school, Faculty of Business studies and Faculty of Humanity and Education. In 2011 one more Faculty is added to Mondragon Unibertsitatea, the Culinary Science Faculty.

MU is a non profit cooperative focused on formation and education and with a social vocation. The intention of MU is not to be a corporative University, but instead to contribute to the development of the region due to the formation of skilled professionals. In that sense, MU is a untypical institution. Many people may think that as is part of the MCC then it has to follow the goals of the corporation. But there are some concepts that people usually don't know.

First, MCC is not a corporation properly said. They use this name, but actually is like a federation of cooperatives under a common purpose. Being part of the corporation allows the

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<sup>7</sup> Irun the 9th of May of 2014

cooperatives to be part of a group, and to contribute in a compensation budget in order to help each other, but nothing else. Each cooperative is autonomous and they make every decision.

That's way the corporation has not power to decide about the university program and if the students will compulsory work for MCC after graduation. Is true that many students end up at MCC, but not in a planificated way. If Eroski needs 30 students with a degree in Business they cannot ask MU to provide them, but these students can work in Eroski just because they know some relatives there and their hear about the vacancy.

Even is not a corporate university, MU is a labor market orientated university. The studies that they offer are all orientated to get some skills useful at this time and on this market. And they are proud of their high employment rates among their students. That is why many times students end up working for MCC. As Mr Lizartza said, the statistics said that 50% of students work for MCC.

University is organized as any other cooperative and its ruled by their Governing Council. This Council is made by 33% of teacher and employees, 33% of cooperatives of MCC and 33% of students. This makes the decision making orientated to the labor market and to student's needs. And keeps the labor market orientated philosophy of Father Arizmendiarieta. At the end MU is not but the continuance of Eskola Politeknikoa in where all started 60 years ago. But anyway, despite being a labor market orientated university the regular courses are not so different from any other university. They started the Mendeberry project at the beginning of last decade, which is the homonymous of the Bologna Program but 10 years before. The name of the Project ( Mendeberry) means New Century in Basque, so it focused to face the changes in this century and adapt the university to the new environment. They realize that the old school university system with no relationship with the companies, or with the society, just like a temple of knowledge it was not enough to face the new global market. That's why they started the Mendeberry Project, in order to converge with the European university programs, that were later implemented in Spain (almost 10 years later) with the Bologna plan.



The project aims to develop all of the students' skills: both those linked to their studies, meaning, technical and methodological skills, and also personal and social and participative skills. Many of the latter are horizontal skills, which are necessary today in any job, and include the capacity for knowing how to work in a team, how to communicate or how to maintain a pro-active attitude towards change. The Mendeberry project also underlines the importance of language skills and aims to strengthen multilingualism in the students. It encourages functional bilingualism in a way that students are able to manage in any social environment, both in Basque and Spanish. However, the project also reinforces the importance of a knowledge of English, as this has become the international language par excellence.

The main difference between this and Bologna project is that one of Mendeberry's goals is to achieve a trilingual level of the students. Instead Bologna as it is implemented in Spain is not even looking for English. The presence of English on the degrees is depending on the universities and the students, if they choose English courses or not.

Talking with Mr Lizartza and Mrs Sein we came to the conclusion that the actual education system, in general, is like a slaughterhouse. You get there with 18 years and they stun you like a little cow. They kill, clean and butcher you. And finally they pack you and they stamp a beautiful useless label on you. They laugh out loud when I make this comparison, but they were totally agree with this idea. The best students are bought by multinational companies like Deloitte, Human, Prize... and the rest of students are doom to survive in the labor market as they can. The idea of Mondragon Unibertsitatea is to fix that, in somehow they did, but the problem is not on the university, the faculty, the teachers or the students; the problem is on the system. Is not prepared to face the labor market needs. Universities nowadays are isolated from reality. And the last initiative of MU was to break with this. And then is when I discovered MTA: Mondragon Teamm Academy.

## 4.2. Mondragon Team Academy: a narrow window to the future.

When I arrived to the end of Hendaya street at Irun, Guipuzcoa, I never expected to find such a place. MTA is placed next to the Business faculty of MU in Irun, and looks metaphorical but the Business faculty is and old XIX century style big house, and the MTA Lab (as they call the faculty) is a new Swedish style one.



Figure 4: Business Faculty at Irun. Source: Google Images; [www.actualidaduniversitaria.com](http://www.actualidaduniversitaria.com)(2014)



Figure 5: MTA Lab next to Business Faculty. Source: Google Images;[www.mondragon.edu](http://www.mondragon.edu) (2014)

Once you get inside, the Lab looks different to any other educational place that you have been before. There are no offices and no classrooms. Instead you find many big and spacious rooms, some with comfortable chairs and some of them like big working places, full of tables and murals at the walls. You can see people working on there with their laptops or with iPads. It reminds me the idea I have about Google office. Really new and different from any other thing.

But besides the place and the aesthetic I saw something much important in there, I saw a new way of doing things, new way of learning, new way of facing the future, new way of developing your career. I saw that there was something big going on there, not just “some freak people doing things different” as some skeptics will say about this way of learning. I saw at least an answer to the educational paradigm, to the slaughterhouse education system, to the status quo.

The MTA is a consortium made my three institutions. First one MU and Mondragon Innovation & Knowledge Research Center (MIK), second the Mondragon Corporation (MCC) and third Tiimiakatemia Global Learning Network, a Finnish education institution.

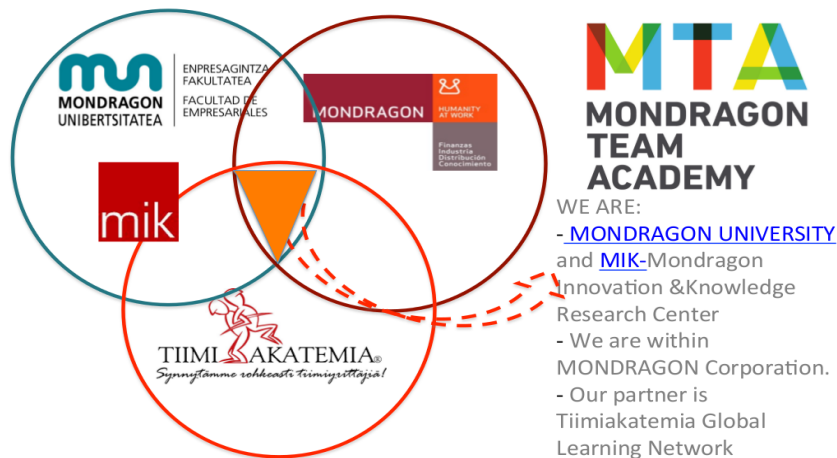


Figure 6: Organigram of MTA, Source: Mondragon Team Academy (2014).

The key factor in this consortium is the Finnish institution, Tiimi akatemia. This institution was founded in 1993 by Johannes Partanen inside the Jyväskylä University of Applied Sciences, and is now a Special Unit of Team Entrepreneurship. The core is a learning method by doing. Students do things, supported by their “coaches”, but basically they just learn by doing. The pedagogy is an application for context of team entrepreneurship based on radical sociocuntrustivism and learning by research. This new concept obliges students to improve every day, to do things and to face the real world.

Inside the MTA they offer four different studies. All related within them, and supported by the Finnish institutions knowledge. They offer a degree in Entrepreneurial Leadership and Innovation (LEINN), a executive master in Intrapreneurship and Open Innovation(MINN), another executive master in Entrepreneurship Knowledge and

Innovation( EKINN) orientated to unemployed people with professional background and a Team Mastery Training for future coaches.

My focus was especially on the LEINN degree, because it takes four years long and is a complete new way of understanding university.

When students start the degree, they are organize in two teams, depending on their team roles. They make a Belvin role test, and then coaches organize them. Once they are in two groups, they have to create a cooperative. The learning techniques are totally different, they have some specific objectives, like earning some amount of money for example. They don't take any exam, each semester they read some books recommended by the coaches and they have to deliver a survey of the book.

This new concept of doing things has its advantages and disadvantages. Because the entire program depends on the attitude of the student. They don't ask for specific competences, but the demand a good entrepreneurial attitude. Mr Lizartza said that the classic archetype of entrepreneur is not so real . There are many different entrepreneurs, in not just the creative and good communicator one. Anyone can be an entrepreneur, if he has the right attitude. That is why in this project students with wrong attitude may have worse performance than the others. But that's what this is all about, attitude ,and attitude can be changed. That depends on the behavior of each person.

At the end, MTA is the reborn of Arizmendiarieta's entrepreneurial spirit. The objective is to have an impact on the region, to create new jobs, to add value to the society. As Arizmendiarietas did with Eskola Politeknikoa, putting the first seed to Ulgor, MTA is the same concep. Educate young people and teach them how to face the labor market by creating their own enterprises. Right now MTA is a seed, but time will show us the tree and the fruits that comes with it.

## **5. LABORAL KUTXA, THE FINANCIAL ARM OF MCC.**

This project wouldn't be completed without looking inside the former “Caja Laboral Popular” or actual Laboral kutxa. The entire MCC wouldn't be possible if Father Arizmendiarieta didn't travel alone to Madrid in 1959 and hadn't obtained the license to set up a credit cooperative. This was the best decision ever made, this given the opportunity to finance new cooperatives, and was the seed of Mondragon Cooperative Corporation.

I decided to travel to the central office of Laboral kutxa, to Arrasate-Mondragon, and I have the chance to talk with Josu Arraiza. He is the Business Area director of Laboral Kutxa. Thanks to this interview I could have an accurate view of the present situation of MCC and a historical perspective of the last two decades.

### **5.1. 1990, the metamorphosis of Caja Laboral.**

Until 1990 Caja Laboral used to had two divisions, the bank division and the business division. The bank division was responsible of the financial performance and the business division was in charge of the strategy of the group. The business division was the one investing on new cooperatives, giving credit to some projects or managing the compensatory budget. But due to the Bank of Spain's regulation, they had to divide those two divisions. The bank division continued to be the Caja Laboral and the business division was turned to the Mondragon Cooperative Corporation, the core of the group.

So after 1990 Caja Laboral was just a financial cooperative inside the MCC and not the one managing the group's strategy. And is during this period of time when Caja Laboral starts the expansion and the opening among the north of Spain.

In the meantime MCC developed until its actual structure. It gets organized in four main areas: The industrial one, the Retail , the financial one and the Knowledge. The industrial area is also divided in sectorial divisions, twelve in total. At the beginning those divisions were by regions but during the 90's they changed to sectorial divisions. At the retail area the main cooperative is Eroski. About the finance one Caja Laboral or Laboral Kutxa and Lagun Aro insurances. And at the knowledge area the Mondragon Unibertsitatea and the many technological centers and investment institutions.

But then, how is Caja Laboral organized? and how it work? Well, Caja Laboral ( Laboral Kutxa ) is a second degree cooperative, that means that the ownership is not only of the workers but also other cooperatives of the MCC group. The same happens with MU for example. The governing council is usually of 12 people, 8 are chosen by the MCC cooperatives and 4 by the Laboral workers. The internal organization is identical to any other cooperative of the group, the same clock work. The difference is that Laboral is strictly controlled and regulated by the Bank of Spain, because is a financial institution. The role of Laboral Kutxa on the MCC is to provide of financial resources to the rest of cooperatives.

In that sense the annual benefits of Laboral Kutxa are divided as follows:

- 50% of the benefits goes to retained earnings in form of reserves.
- The other 50% is divided, 10% to the solidarity budget, 25% to the MCC as found to MCC Investment; and the other 15% goes to the workers of Laboral Kutxa and is capitalized to their shares.
- The workers received the annual interests of their share and their payroll ( which is call “anticipo”, advance payment)

And this is really important, the finance. Because cooperatives have a huge problem to finance themselves. Anonymous Societies for example are much easier to finance. They just need to increase the number of shares at the stock market and they get new shareholders. In the other hand is really difficult to increase the capital of a cooperative. This is why Arizmendiarieta was so concerned about the need of having their own bank. The problem is that at the beginning Laboral was enough to finance the cooperatives. But during the last years some cooperatives like Fagor and Eroski grown so much. And even Laboral was not able to satisfy their financial needs.

Laboral as a financial institution has to diversify risk, it can take so huge investments for just one cooperative. First cause regulatory problems with the Bank of Spain and second because is not reasonable to concentrate so much risk in just one investment. Due to the Bank Spain regulations Laboral couldn't be a corporation bank , it had to be a bank part of the corporation but with independent objectives and business. Endogamy is not allowed as Mr Arraiza said.

To avoid endogamy Laboral started an oil drop expansion during the 90's and the 2000. Specialty in the neighbor's regions to Basque Country. With the objective of getting a good market share and offering specialized financial services to the North of Spain Industry. They have 402 bank offices in 17 regions. Specially Gipuzkoa, Bizkaia, Araba, Navarre, La Rioja, Castilla Leon and Cantabria. They reach until Madrid in their expansion but they stopped there in 2008. Due to the financial crisis they decided to consolidate their position in order to expand.

## **5.2. "The catharsis. Oak or Bamboo."**

The 2008 crisis supposed a new challenge to the MCC and the way of organizing it. Using a sea metaphor until this crisis MCC was a navy of ships all tied with ropes. It was not a holding, that would be a huge ship, no this was a navy of many different ships. And the crisis was like a huge storm to this navy, the biggest and oldest ship sunk (Fagor) and the rest of ships were forced to cut the ropes to avoid the same fate. The rest of cooperatives couldn't hold the weight of Fagor, neither Laboral could. And this put MCC in a crossroad about what path follow on the future.

Right now MCC is a catharsis process. After Gisasola resign as director of MCC a council of four directors is now in charge of MCC. The director of Orona( industrial area),the director of Laboral Kutxa, the director of Eroski and the director of LKS from the Knowledge area. During this catharsis MCC has to decide the new framework of its future. They have to reconsider the objectives and aims of the group. There are two lines or strategies. More union among the group members or more independence.

One of the proposes is to consolidate MCC as a holding. But this is not easy. And it can be very dangerous in the future, cause this will turn Mondragon less flexible on a possible financial crisis. At the end is the difference between the oak and the bamboo.

The oak is strong, big and robust. In the other hand the bamboo is thin, light and flexible. An strong wind storm can crash the oak, because is not flexible, but the bamboo will dance and fold with the wind, and it will prevail.

That is why the most possible solution is to give more autonomy and independence to the cooperatives of the group. To rethink what is the purpose of the group, help each other and give bailouts to bankruptcy cooperatives or to have an impact on society. Because as Arraiza said, many times MCC has bailout many cooperatives with not long term profitability, just as a grant. And that can not be possible anymore. A cooperative has to be profitable in the long term just because it's activity. And only if it needs liquidity to perform that business can be helped. The financial assistance can't be the core of the cooperative, because that is not investment is subsidizing.

One of the main problems of Fagor was that many of its business lines where not profitable any more. And instead of eliminating them and looking for new alternatives and solutions they decided to flee forward. With subsidiary funds coming from MCC . That's why the shutdown of Fagor is not just about bad performance and economical background, it is about reinventing the way of doing things. They way of understanding the MCC. At the end MCC has to be a bunch of synergies helping each other on the daily basis, with both financial and knowledge assistance but only for those profitable projects. And not a big corporation that helps unconditionally any cooperative regardless the performance, solvency, profitability and so one.

Right now the future of MCC is uncertain, but not just their economic performance or the annual reports. The entire identity and meaning of the group is about to change. They are designing a new framework, with new objectives and goals, looking to the society and not to themselves. Taking up Arizmendiarrietas philosophy. The objective is not about looking to themselves as a group, but looking to the environment, to the society, to the people surrounding them and giving them value. That is what being a cooperative is all about. Give value to people.



### **5.3. Laboral Kutxa's role in this new stage. Being a different bank.**

Laboral Kutxa is an unusual bank. First is not a bank as itself, but a credit cooperative. This makes the objectives, the performance, the daily work, the priorities and the people's behavior really different.

First at all, they are all partners, one person one vote. So, the relationship among them is closer. The power distance is really low. They use a retributive solidarity system. This means the same as in Eroski, the highest salary can be only 8 times higher than the lowest one. This means that the lowest salary is about 1200€ per month( the lowest index is 1,2) and the highest one is 8000€ per month. 8000€ per month looks like a good salary right? But if we compare it with the salary of the director of BBVA , Santander and Barclays is a ridiculous amount. In those big companies the ratio is over 370. About 5 million euros per year plus the bonuses. And those bonuses are also really different in Laboral or any other bank. If the director of Laboral gets 100% of the objectives he gets 50.000€, the homonymous at BBVA gets over 2 million. And this is not just because Laboral is smaller bank and gets less benefits. This is because the philosophy of Laboral Kutxa.

Mr Arraiza also told me about the goals of directors. In Laboral goals are always long term. There is not short term goal to get fast profits and bonuses and to ruin the long term performance, as it happened with many financial institutions in Spain.

They are less greedy, more collective, austere, sober-minded and solidary among each other. Being partners has good things and bad things. It means in general to commit more, to work harder and to feel that you are part of a group. But sometimes is just the other way around. Some workers can just get lazy and avoid their responsibilities. And as they are partners none can fire them. This also happens, much less than the positive effect and generally at the bottom of the company. "Everything depends on the motivation, illusion and the leadership of your manager" said Mr Arraiza. He also remarks the concept of leader. Not just a boss, but a partner, a leader the one who push the more. The one you are proud to follow because you fell that he is doing right, that he is the right person.

Mr Arraiza told me for example, that the Laboral central office cantina is unusual for a bank. Because every day the director of Laboral is having his lunch at that cantina and next to his table you can see any other member. And the cooperative in charge of the food and cleaning of the building is Ausolan , also member of MCC. So the one that is eating and the one that is serving you at the cantina are partners of the same group and don't feel that anyone

is more than anyone. They are all just people working together. As the slogan of MCC says :  
“Humanity at work”

And when I asked Mr Arraiza about which is the future of MCC, is MTA going to suppose a qualitative change in MCC, he told me that he thinks that MTA is a good way of doing things different but the future of Mondragon depends on the synergies. The synergies between the cooperatives and the knowledge centers, to find the way to implement the innovation of those centers in the cooperatives. To develop not an R&D department but a R&D hole group. To be the chanel of implementing innovation at the society. MTA will prepare young people to face this new world but the key is find how to take advantage of the Knowledge area in the MCC cooperatives.

MCC has to work like a clockwork, industrial and retail cooperatives are the gears, Laboral is the lubricant that makes the engine perform efficiently and MU and the other Knowledge centers are the brain, the engineers , the innovation, the technology... The success is to mix all those factors and make them work together. Is not just being a cluster, is being a hole system. That is the challenge of MCC.

## 6. CONCLUSION

After this talking with Mondragon, many questions have being solved. For example, looking to my first original four variables, organization, economic growth, cluster effect and culture I conclude that.

First, the organization of Mondragon is a key variable, not just the fact of being a cooperative, but how this cooperative works. The clockwork of Mondragon is unique and essential to understand it's success. Without this organization Mondragon would never be what it is now, and more specifically in those cooperatives where this clockwork doesn't work very well the problems are more likely to appear. Like in the case of Fagor for example.

Second the economic growth could have being a key variable at the beginning of MCC but not at the mature stage. MCC has gone through many economic crisis like the 73 one, the 93 one or the 2008 one, and this didn't stop its activity. The post war Spain was a good moment for the birth of such group, but not essential. In this sense I wouldn't say that this variable is necessary to achieve this result. Basically because the biggest expansion of MCC was at the 90's, with a mature industry and a financial crisis affecting its performance. Perhaps in any other place of the world this economic model would be able to apply. Regardless the economic cycle, or just considering the growth as a more favorable one.

Third the cluster effect, this is in my opinion another key factor. Not a cluster understanding it as a holding or cartel. But a lot of different companies, placed in the same region, with related economic synergies, common long term goals or objectives and some cooperative agreements. At the end is not but helping each other for the shake of the social wellness. If I am doing well and you are doing well then the whole is doing better. Especially in this globalized world, companies have to help each other at least if they are at the same region. And if they share the same philosophy, the same values and the same ethics, then they could even be part of a group. And this is exactly what MCC is all about.

Finally the cultural background is another key factor, but not as an exogenous variable. The cultural background doesn't have to be at that place before the cooperative start. Of course a more collective culture, with less power distance and less individualism is preferable. But the most important cultural background is learned inside the cooperative. Once you start with 16-19 years and you start your formation from the first step jobs. The culture of being part of a group, a team and something that goes beyond you as an individual. Feeling that your

vote counts, that you can choose your representatives at governing council and that you don't have a boss but a leader is a great difference against any other business.

But after talking with Mondragon I also get more questions. For example, which is the relevance of a single man on this case? I have learned that without Father Arizmendiarieta this whole group wouldn't be possible. Why? Because he was the impulse of all the ideas and values that have being implemented. He was a man with vision. He could anticipate and predict the needs and problems they could have. He decided to open a credit cooperative; he went alone to Madrid to ask for the license. He was able to inspire people and make them work together. And I don't know if this would be possible to be implemented in any other place.

I don't know which the natural size of this model is. Can this be a model of a certain size? Because looking at examples like Fagor or Eroski, that when they grow above one size is really difficult to capitalize the cooperative in order to increase financial resources and investment. Cooperatives are companies with a certain roof on it. Is not like a stock exchange company, they can't increase capital so easy. Then this model breaks the idea of eternal growth of our society. Were economy and companies must growth every year to maintain the market alive. Perhaps this is a model where equilibrium is found. A model where income is better distributed in a cooperative market way. A model where society converges to an equal situation. Without huge differences between the richest and the poorest people. Of course this set's a whole new idea. Why the payroll of a director has to be 370 times bigger than the lower one? Maybe 8 times bigger is enough.

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