

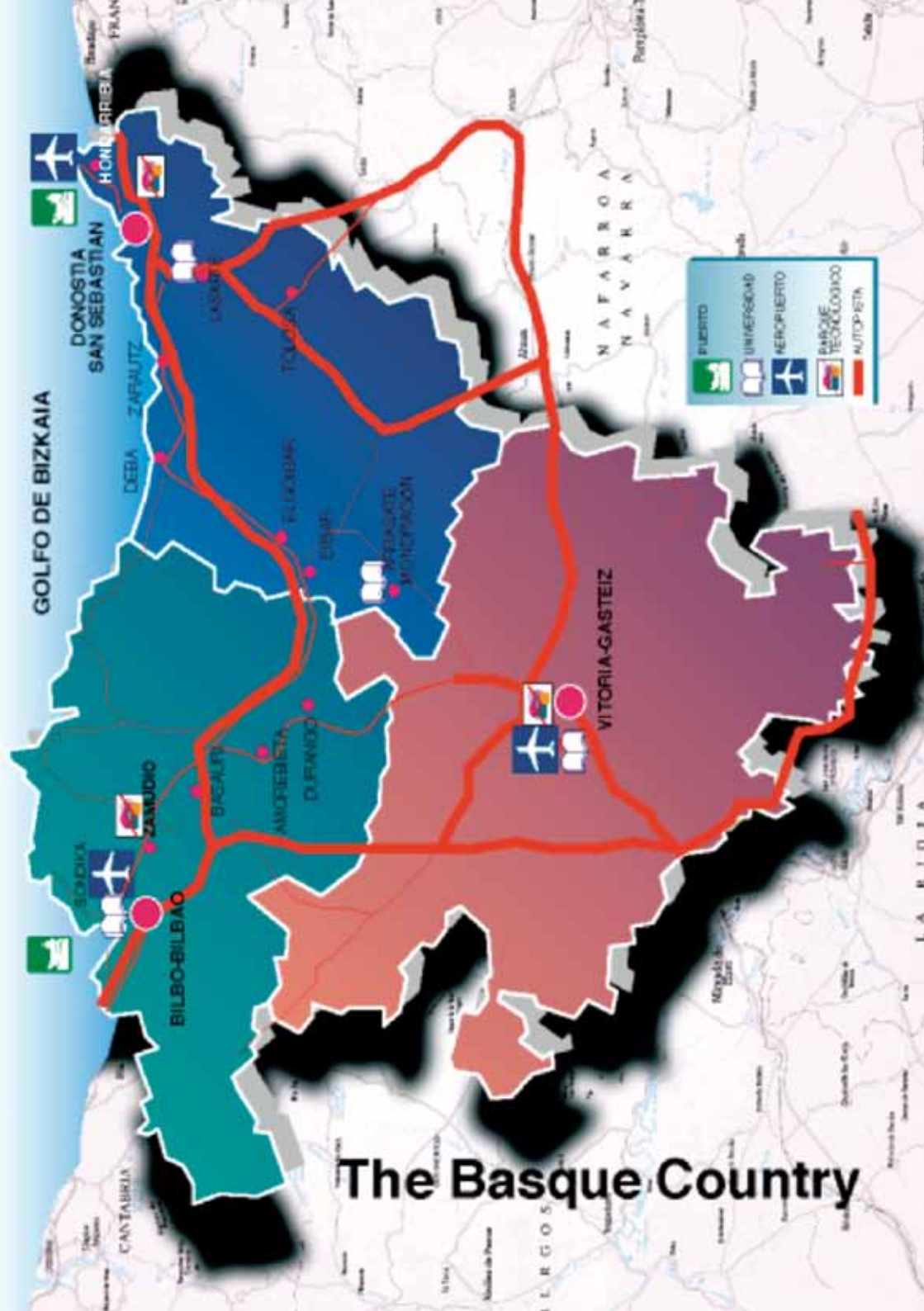
LEADING THE DRAGON

Lessons for Wales from the
Basque Mondragon co-operative

Edited by John Osmond



iwar



GOLFO DE BIZKAIA

DONOSTIA
SAN SEBASTIAN

HONDARRIBA

BILBO-BILBAO

ZAMUDIO

BACARRI

AMOEBIESTA

DURANGO

DEBA

ZAFALUTZ

TOLUOSA

ELKANOAS

LEIOA

VITORIA-GASTEIZ

VITORIA-GASTEIZ

The Basque Country

Legend:

- PUERTO
- UNIVERSIDAD
- AEROPUERTO
- PARQUE TECNOLÓGICO
- AUTOPISTA

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Chapter 1

Learning from Mondragon

John Osmond

The Mondragon Corporation is a federation of worker co-operatives based in the Basque Country in northern Spain. Founded in the town of Mondragon in 1956 and inspired by a Catholic priest José M^a Arizmendiarieta, its origins were modest, beginning with a small workshop producing paraffin heaters and later a technical college. However, over the next five decades the group expanded to become a major economic player. Today it is the leading business group in the Basque Country. It is in the top ten of Spain's largest companies in terms of turnover, comprises 120 co-operatives, employs more than 83,000 members, has a turnover of €14 billion, has a bank and numerous research institutes, and has founded a university with some 3,600 students.

In February 1981 a Wales TUC delegation visited Mondragon and came away inspired to found the Wales Co-operative Centre. This is now 30 years old and over the past three decades has had a substantial impact on the Welsh economy. It has assisted in the start-up of new co-operative businesses, promoted credit unions and social enterprises, and run campaigns for digital inclusion and fair trade in some of our most disadvantaged communities. In the 2010-11 financial year the Centre supported more than 200 co-operatives and helped set up 56 new businesses.¹

In April 2012, another Welsh group, this time including today's Director of the Wales Co-operative Centre, returned to Mondragon to witness the progress it has made and to see what new directions might be possible. Informed by the visit, but focusing on the realities of Welsh experience, this publication suggests some developments that could further embed co-operative ideas in Welsh policy-making. These include a potentially transformative proposal for introducing a co-operative approach to the delivery of public services, especially those that currently involve sub-contracting care for the elderly to private sector providers.

As all the contributors to this volume readily acknowledge, the circumstances of Mondragon and those of the wider Basque Country are highly distinctive and cannot easily be emulated. Nonetheless, there are powerful lessons in the underlying principles that have guided the development and growth of the Mondragon initiative. Perhaps most important are what might be described as the cultural characteristics of the Mondragon co-operatives. Certainly, it was instructive to see at first hand, different ways of working and relating with one another in the workplace being put into effective practice. The founding principles of the Mondragon Corporation, shown

in the accompanying panel, provide an indication of how far reaching these are.

They are linked by the Corporation's slogan, *Humanity at work*. "This means we are the owners of our enterprises, and we are the participants in their management," we were told by Mikel Lezamiz, the Corporation's Communications Director, who was our guide at Mondragon:

"Our humanity comes first. We want to have successful and profitable businesses and see them grow, but they are subordinate to us, not the other way around."

Governing principles informing the operation of Mondragon co-operatives

- Only co-operative members can be stakeholders in an enterprise. All decisions are democratically accountable through an assembly which elects a board of directors, and which in turn appoints the management. In addition, there are elected works councils which deal with the management on a day-to-day basis and help formulate policy.
- Each worker has to put in his own capital contribution. In the early years at Mondragon this was about £2,000 each. Now the contribution is higher, around £12,000 for the more advanced co-operatives. However, the Corporation's bank offers prospective members a personal loan repayable from earnings over five years.
- The first claim on profits is the payment of interest on the member's capital contribution. Thereafter, around 20 per cent of remaining profits are distributed to reserves, 10 per cent to a fund for community projects (such as Basque-medium schools) and 70 per cent to members' capital accounts.
- Profits are distributed according to a member's wage level, but the ratio between the highest and lowest paid generally cannot exceed 6:1, though in some rare instances this can rise to 12:1 for top managers.
- Profits committed to reserves go to finance new investment and the creation of new jobs.
- Young workers are taken in for training at Mondragon's own technical schools and its university. During that time they also work part-time at the students' industrial co-operative and 20 per cent of their wage is reserved for their capital stake in the co-operative they eventually join.
- Redundancies are not allowed. When an enterprise ceases to operate profitably, the workers are either retrained to produce new products or move to another co-operative within the Corporation.

The slogan is followed by the words *finance, industry, retail, knowledge* which refers to the scope of the co-operatives. Of the 120 workplaces, 87 are industrial factories, making everything from kitchen appliances to automotive components, computers, and machine tools. Others are a bank Caja Laboral, the University, the large Eroski retail network that extends to the whole of Spain, four agricultural co-operatives, nine research and development centres, and six social service agencies managing health care, pensions, and other insurance matters.

All are worker owned. All have the management selected by the workers and co-op governing boards. All have yearly assemblies where the workers set strategies, make or change policies, and elect their governing boards on the basis of one worker, one vote.

Mondragon ('Arrasate' in Euskara, the Basque language) lies deep in the mountains of the province of Guipúzkoa, in northern Spain. In Spanish, of course, Mondragon means *Dragon Mountain* - the inspiration for the title of this report. In the wake of the Spanish Civil War Mondragon was an impoverished town about the same size as Blaenau Ffestiniog, Ystradgynlais, or Aberdare. Today, despite the ongoing recession, it is a prosperous area and boasts the lowest unemployment rate in the whole of Spain. This transformation is wholly due to the impact of the Mondragon Corporation on the town and its surrounding area.

In the wake of Franco's death in 1975, and following a referendum in 1979, an autonomous Basque Government was established which is notable in being responsible for its entire tax base as well as having full legislative powers. This new regime has provided a supportive business environment for the Mondragon Corporation in recent decades, though to a large extent the Corporation has developed independently of Government policy.

There are many reasons for this independence, but undoubtedly the most influential was the political situation that faced the Mondragon co-operative pioneers when they set out in 1956. Spain was still under a fascist dictatorship. During the Spanish Civil War the Basques, an independent people with their own language and culture, took the side of the Republicans against Franco's coup d'état. When Franco captured the rest of Spain and advanced against the Basque country, the Basques put up a spirited defence. However, they suffered greatly as a result, with Franco throwing the weight of his army against them, destroying their towns and imposing a punitive regime. Many Basques ended up in concentration camps. Some fled to France. Others were summarily executed. The region's highly developed industry, which dated back to the days of the Spanish empire, was destroyed.

Serving in the Republican forces was a young priest, Fr. José María Arizmendiarieta, born in 1915 into a farming family thirty miles from Mondragon who had joined a Catholic seminary aged 13. He was captured by the fascists, put in a concentration camp, and narrowly escaped execution. After his release in 1941 he was sent as a curate to the small town of Mondragon, some 30 miles inland from Guernica. Two years later he became a religious instructor at a small training school in the town operated by a local steel company. This prompted him to start an independent community-run training school for young apprentices in October 1943. This school was self-governed and self-financed, and laid the ground work for what would become the Mondragon Co-operative Corporation's schools that would eventually educate more than 45,000 students. In 1954, five students from the school bought a small bankrupt factory that manufactured paraffin cooking stoves. To buy the company, they asked one hundred members of the Mondragon community to contribute to a £60,000 loan. The men used their initials to name this first co-operative Ulgor, and by 1958 it was employing 148 members of the Mondragon community.

In 1959 Arizmendiarieta helped to establish a co-operative bank, the *Caja Laboral Popular*, which played a key role in the expansion of Mondragon by facilitating access to capital and also providing business management training. In the 1980s, the 150 co-ops then in existence banded together as the Mondragon Co-operative Corporation which was established in its current legal form in 1991. Today it lays claim to being the world's largest worker co-operative. Its supermarket arm, Eroski, is the largest Spanish-owned retail food chain. The Corporation also runs co-operative schools for the children of the workers, a modern technological university, an independent research and development arm, and more recently has developed residential and domiciliary social care for its workers beyond retirement.

In 1981 the Welsh delegation, funded by a Welsh Development Agency study grant, was led by George Wright, the Wales TUC general secretary, and Les Paul, its vice-chairman. Other trade unionists included Viv Balmont, a Cardiff member of TASS who had recently lost his job; Gwyn Jenkins an AUEW member from Aberystwyth, who was seeking to launch a co-operative, Aberystwyth Engineering, out of the ashes of a recent casualty in the town, Brockhouse Engineering; Jim Ryan, president of West Glamorgan trade councils, and a former Port Talbot steelworker; Joyce Schutt, a TGWU shop steward and member of the Bargoed Blouse Co-operative; and Barry Scragg, chairman of UCATT's Shotton branch and a member of the Wales TUC general council. In addition they were joined by Robin Reeves, then Welsh Correspondent with the Financial Times.

One of the issues in the forefront of the minds of the 1981 delegation was the absence of trade union organisation within the Mondragon co-operatives, simply because the workers owned the businesses. However, as Robin Reeves observed, in a report he prepared shortly afterwards:

“The Wales TUC delegates satisfied themselves in talks with the co-operative members and local union representatives that there was still an important role for unions to play in ensuring the democratic structure worked effectively.”²

It was interesting, therefore, that the same issue cropped up during the 2012 visit, and is commented on in a similar fashion by Derek Walker, chief executive of the Wales Co-operative Centre, in Chapter 2. Other members of the 2012 delegation, likewise contributors to this report, were Alex Bird Executive Chair of Co-operatives and Mutuals Wales; Mark Drakeford, AM for Cardiff West; Liz Moyle an elected Member, and Ashley Drake, Membership Manager with the Co-operative Group Cymru/Wales; and myself.

An important aspect of the foundation of the Mondragon co-operatives, which Robin Reeves also drew attention to in his account of the 1981 visit, was the impact of Basque nationalism. Although the main impetus and inspiration for their formation came from the town’s parish priest José Ma Arizmendiarieta, the structure of workers’ control that evolved also reflected the ideological debates that took place within the trade union arm of the Basque National Party in the 1920s and early 1930s. As Robin Reeves put it:

“The Basque workers rejected both capitalism and communism as alien to and irreconcilable with, Basque culture and social traditions. They sought a form of economic organisation which, while achieving social and political advance for workers, would also maintain the tradition of communal obligation and commitment which had always been a feature of Basque society.

“It could be said, therefore, that the intellectual foundations for the development of the Mondragon co-operative movement were laid before the dark age of Franco’s fascism descended on the Basques in 1937; and that the development of the movement provided an outlet for Basque nationalist expression at a time when normal political activity was forbidden.”

On one level this reflection only serves to further underline the particularity of the Basque experience and to emphasise again that it is exceedingly difficult to envisage

the Mondragon co-operative model working in other settings. At the same time, however, it is possible to trace a comparable “tradition of communal obligation and commitment” in Welsh life, and especially in the histories of our mining and slate quarrying communities. Surely, therefore, this holds out some hope that the Mondragon co-operative approach, certainly in terms of the cultural values it espouses, will be attractive to the Welsh temperament.

Notes

- 1 Wales Co-operative Centre, *Impact Report 200-11*, www.walescooperative.org
- 2 Robin Reeves provided an account of the visit in *ARCADE - Wales Fortnightly*, 6 February 1981.

Chapter 2

Innovative co-operation – the Mondragon approach to economic development

Ashley Drake

To say that the Mondragon Corporation has an impressive ‘can do’ culture is not intended to understate its proud history or highly principled *modus operandi*. It was just the very basic impression I took home to Wales following our visit in April 2012. The ‘can do’ culture is the approach because, by now, too many people’s livelihoods depend upon its existence. Mondragon simply cannot fail and the organisation has a laser-sharp focus on ensuring its success for the next generation.

Mondragon is more than a collection of linked co-operative enterprises, it is a sophisticated cultural phenomenon. While the Basque Country provides the geographical, political and social backdrop, it is the marriage of innovative management and the internationally recognised values and principles of the co-operative movement that have, without a doubt, provided the cultural route map to success.

To many outside of the co-operative sector the business culture found at Mondragon would not appear alien. In fact, the Constructive Culture model used at Mondragon and delivered by its Otalora Management Centre, is internationally recognised organisational best practice, simply interpreted to fit the needs of co-operatives. What makes the Basque practise so different is that it impacts on the wider community within the Mondragon area. As a result it serves as a cultural and co-operative template for whole communities and not just for isolated businesses within them.

According to Otalora, the Constructive Culture model advocated by Cooke and Lafferty in their 1983 study *Organizational Culture Inventory*, and understood as being orientated towards:

- Customers
- Innovation
- Achievement
- People
- Teamwork

These can be easily adapted to fit the co-operative model because of the innate correlation between it and core co-operative culture (see Figure 1).

This forms the basis of Mondragon’s organisational culture. A key question from our visit was whether we in Wales can emulate Mondragon in any way to strengthen the indigenous co-operative sector here? On the matter of developing a co-operative management culture there is clearly scope to do so via the education system and through training for new and existing enterprises. However, other aspects of Mondragon will be impossible to replicate because it is unique.

Figure 1: correlation between the Constructive Culture management model and co-operative culture

CONSTRUCTIVE CULTURE	CO-OPERATIVE CULTURE
Humanist values: equality, respect, diversity	Co-operation
Team values: co-operation, trust, generosity	Participation
Values of responsibility and achievement : commitment to honesty	Social responsibility
Values of development and continuous improvement : innovation, search for excellence	Innovation

One advantage we in Wales have over Mondragon is a genuine cross-party consensus in favour of the co-operative sector as well as support from the Welsh Government. During our visit we met with Felipe Yarritu Diaz, Director of Economic and Social Enterprise with the Basque Government who appeared bemused when we asked him whether the co-operative model was taught in Basque schools. His response was, “No. Why would we want to do that?”

Mondragon has succeeded despite the Spanish and Basque Governments and

not because of them. Utilising a co-operative principle of self-reliance, they have created what amounts to a virtual state within a state simply because they could not count on the support of anyone apart from themselves.

Now in its 56th year, Mondragon is a crucial economic driver within the Basque Country and it simply has to succeed. And it certainly has, especially when compared with the indigenous co-operative sector in Wales, in terms of longevity, employment and wealth creation. Mondragon creates 5 per cent of the Basque Country's GDP and 6 per cent of its employment. By comparison the indigenous co-operative sector in Wales creates far less than 1 per cent of our GDP. Neither do we have the critical mass, central organisation or co-operative culture that is found within Mondragon.

With Spain's economy in turmoil the performance of Mondragon is startling. Since 2009, 26 per cent of Spanish enterprises have failed, yet only 2 of Mondragon's 120 companies suffered the same fate during the same period. The impact it has on the Basque Country is also evident. Whilst youth unemployment across Spain has hit a depressing 50 per cent, it is 30 per cent in the Basque Country. The statistics for unemployment as a whole tell the same story. Across Spain, unemployment is 23 per cent whilst it is only 11 per cent in the Basque Country. The comparison is starker in the confined and very Welsh-looking valleys where the Mondragon Corporation is located. One small town, which is home to a campus of Mondragon University, has the lowest unemployment rate in Spain.

It is certainly true that the northern part of the Spanish state, including Catalonia and the Basque Country, is more industrialised and prosperous than the rest of Spain. However, it would be too simplistic to view that as the only reason why the valleys around the town of Mondragon, in the Guipúzkoa province of the Basque Country, are weathering the economic storm that has ravaged Spain. What additional factors are in play? How is Mondragon making a difference, and why?

We discovered a strong distinctive culture within the Mondragon Corporation. The individuals we met were earnest and forthright. They knew that this was their truth and were unswervingly faithful to it. Considering their history of success and the way Mondragon operates for the good of its members, it is difficult to question their mindset. It was also apparent that being a member of a co-operative has a high social status within the community and is something to which non-members aspire. The population knew what co-operatives were

and the benefits that accrued from becoming a member of one. It was also evident that co-operative members knew of the responsibilities that accompany membership in terms of the democratic process and the way in which decisions are made.

When looking at the culture of the Mondragon Corporation a good starting point is salaries. We were informed that historically the managers of the co-operative businesses earned no more than three times the salary of the lowest paid worker, but that this had changed in 1973 to 4.5 times (and 6 within a small number of co-operatives). When asked how top managers could be retained if their salaries were capped, our guide Mikel Lezamiz, the Corporation's Communications Director, appeared puzzled before addressing the question in the following way. He suggested each individual required a pyramid of needs, with basic requirements such as food and shelter at the bottom, rising to a need for 'self actualisation':

Self Actualisation
Individual Needs
Social Needs
Security
Basic Needs

In this perspective, once an individual's salary satisfies their individual needs they are content and have reached 'self-actualisation' Another way of expressing this is to ask why move to Madrid or Bilbao to earn an additional €20,000 if you already have a decent home and standard of living in your native community? At first this appeared odd to our group and there were expressions of incredulity on some faces. However, as the visit progressed and we heard of the wider and (to us) very generous benefits of co-operative membership, the picture became clearer and the deep-rooted cultural foundations on which Mondragon is built became obvious.

An example of this was when we visited Caja Laboral, Mondragon's bank. During the visit, in a Board Room with the most impressive views across the Mondragon valley, we were informed (open mouthed) that members of co-operatives within the Mondragon Corporation were offered mortgages at a rate of 1.45 per cent above the inter-bank lending rate. Seeing the disbelief in our eyes, Pio Aguirre, the

bank's Head of International Promotion, quickly said that this rate was, of course, only available for loans up to €160,000. A higher rate was applicable if larger loans were required. When we then heard that the higher rate was a mere 0.5 per cent more, we promptly resumed our state of open-mouthed disbelief.

The co-operative principle of 'sharing the profits' is embedded in Mondragon's culture and illustrates yet again how important is Mondragon's business-focus. Each year the dividends allocated to members are retained and re-invested within the Corporation with a guaranteed interest rate of 7 per cent. Over the working life of the member the accumulated value of the dividends generates an additional pension. If the member leaves the co-operative they can withdraw their dividends but cannot keep them there if they have left the organisation.

The co-operative culture was also seen when we discussed, on many occasions, the current economic woes of Spain. When questioned about what happened when individual Mondragon co-operatives needed to lay-off staff, Mikel Lezamiz calmly informed us that workers were found alternative work within the organisation. When pressed on the way that this system operated and the length of time it took to place people in new roles, he replied, "About a week, sometimes two". In addition, if they move to a lower paid position their salaries are guaranteed for two years after which they have to become a member of the new co-operative and accept the salary at the going rate.

Once again, this highlighted Mondragon's distinctive culture of co-operation and the benefits of being a co-operative member.

The issue of self-actualisation was perfectly exemplified when we discovered that the last strike at a Mondragon co-operative was in 1973, and was caused by the issue of salaries. That was the point when the lowest-paid to highest-paid ratio was increased from 3 to 4.5. It was prompted by changes in Spanish income tax law, which meant the ratio had to be increased so that managers would not lose out financially. We were told that despite the changes being accepted by the democratic structures of the corporation, about 15 members refused to accept the change on principle and went on strike. These members were subsequently expelled from the co-operative. However after twelve months the co-operative invited them back and 12 re-joined and went back to their old jobs. How many large-scale industrial concerns can claim to have had no strikes for almost 40 years?

If the examples provided above paint a picture of a generous organisation that the local population strive to be a part of the next question surely is, how can Mondragon afford such generous benefits and pay its members above average wages?

To answer that the Welsh delegation quickly saw that another key aspect of the culture of Mondragon was the organisation's inherent flexibility and creativeness. Whilst being effective advocates for the co-operative model, what soon became apparent was that Mondragon co-operatives were prepared to re-work and tweak that model so as to enable them to face a new challenge without renegeing on their co-operative principles.

Our visit was a master class in co-operative ingenuity as we learnt of more and more models utilised by the corporation and how they have adapted the core co-operative model to suit changing needs. There was no place here for hard line co-operative purism. They simply find a new model and make it work, even if it takes time to be fully delivered.

An example of that was seen at the GSR care home where we discovered that it had been established as a mixed co-operative with investment from Mondragon's construction business, the central organisation and the staff members themselves. A key component at the beginning of the project, the construction business is now decreasing its involvement in the co-operative as it seeks to direct its energies and resources to new projects. The care home was a means to an end for the construction business and it was happy to forego its share of ownership when their task was complete and its initial investment was returned with profit.

Further afield, we learnt of Mondragon's growing international reach with factories dotted over several continents. The organisation had decided to adapt to the challenges of globalisation by expanding overseas, but in a co-operative manner. Many of these installations are not co-operatives at present but the clear evidence provided by Mikel and others in Mondragon was that their intention was to turn these units into co-operatives in the medium to long-term.

It was argued that the middle of a global economic crisis was a time to get the business proposition right first and then harmonise the units as co-operatives later. Once again, more traditionalist co-operators may have been alarmed by this diversification into purchasing non-co-operative businesses overseas but

the essential 'can do' business culture of the Mondragon Corporation was again demonstrated. As was the case when we were informed that for every two jobs created abroad, a new job was created back in Mondragon. Innovative business planning had been married to their core co-operative principles and had led to success.

During our visit we met Fred Freundlich at Mondragon University, a private fee-paying institution that is part of the Mondragon Corporation. In his tutorial we learnt how students paid for their education by working within a special co-operative, Alecop, that was established to specifically employ students. Furthermore, on the Co-operative Business course at the University we heard that students were expected not only to create businesses as part of the course, but that those business had to achieve pre-set minimum targets on profitability in order for the student to pass. Business failures amongst the students were common, but were accepted in order for the students to learn by their mistakes. In this way the Corporation is breeding its next generation of senior managers in a practical way.

We also heard that Caja Laboral supported an organisation called Gazetempresa, a business advice centre for young people. The selection process before advice is provided is stern but with a start-up success rate of 80 per cent they would appear to be getting it right.

Mondragon is a successful and inspiring organisation, founded on core co-operative principles and with a distinct organisational culture. In my view there is certainly scope for Wales to emulate aspects of the way Mondragon does business. Although there are unique circumstances at work in the Basque Country, we would be ill advised to simply state that these are reasons why we should not try to further develop the co-operative sector in Wales in some of the ways pioneered at Mondragon. The innovation and ingenuity the Mondragon Corporation has shown in developing and adapting the co-operative model should be an inspiration for us to overcome the obvious difficulties in doing so.

The establishment of the Wales Co-operative Centre was a direct result of the first Welsh visit to Mondragon in 1981. The 2012 visit sparked an enthusiastic four-day conversation amongst the delegation as we soaked-up facts, figures and the culture of the continuing Mondragon success story, and debated how we could utilise that learning back in Wales. During numerous car journeys and over several dinner tables we began to flesh out our ideas and pose questions to

colleagues as to what was workable and what was desirable.

My view is that now is the time to further enhance the role of the Wales Co-operative Centre to enable it to become the strong and influential central co-operative enabler within the Welsh economy that Mondragon is in the Basque Country. 'Co-operation amongst co-operatives' has achieved critical mass in the Basque Country and the Wales Co-operative Centre needs to be given the tools to achieve it here.

Chapter 3

The Mondragon business development system

Alex Bird

Finance is key to the Mondragon's business development and to a large extent is the reason for its success. Mondragon started in a dirt poor area. When I first visited the Basque country in 1962 I was horrified to find donkeys were still used as beasts of burden. Many people had no electricity or proper sanitation and there were so few vehicles that petrol was still pumped by hand.

However, at Mondragon they developed a simple but powerful set of actions to change their situation by harnessing what they had. In broad terms these included the following:

- They have captured local investment and locked it into the area through the creation of a co-operative bank, the Caja Laboral. This money has been invested and re-invested, again and again in local people's jobs rather than in some project in another country even though that might have made more profit.
- The co-ops they created linked together, investing in each other. Whilst 100 per cent worker ownership is their goal, they are pragmatic about other arrangements, as long as there is a plan to achieve worker ownership in the long run.
- They have established a common development fund from which co-ops can draw finance for start-up or growth. Every co-op commits at least 10 per cent of profits to this.
- They share the hard times. To this day there are inter-co-op loans of both cash and surplus workers via a system organised centrally by the Mondragon Corporation to support struggling co-ops. As a result very few have failed. Even during the recession of the early 1980s, when the Basque region lost 150,000 jobs, the Mondragon Corporation created an additional 4,200 jobs. The overall result has been that only 104 of its workers (0.6 per cent) have ended up unemployed.
- Mondragon co-ops share their income equitably. The top salary ratio is capped in most of the co-ops at six times the lowest paid, although this is stretched in some of the larger co-ops to 15:1 to try to reduce the poaching of top management by other businesses. This compares to the FTSE100 average of 262:1. ¹

- They spend their own money on research and development – amounting to €140 million in 2009 – and business incubation and support. The effect is to secure jobs in the area for future generations. They work with others, universities and commercial businesses where necessary, but they are canny about intellectual property ownership and retain it in the Mondragon co-ops whenever they can.

It is important to remember Mondragon was founded by and is still run by engineers. Not only is Mondragon based on industrial production, but the engineer's mind-set runs throughout everything they do. Business development and finance has been approached as an integrated whole. Problems are de-constructed, analysed, re-designed and re-assembled. What they have produced is a production line approach, but with built-in flexibility.

Some elements of their practice can't be simply translated back to Wales as our legal, governance and political systems are so different. However, the general principals that have been adopted at Mondragon should offer clear lessons for Wales. If we are to learn from it we need to understand the Mondragon model as an interconnected system. If we just try to copy bits we will gain very little. At the heart of the Mondragon system are four main threads:

- Research and development - the search for new products and services.
- Education and training - to keep a leadership position in production.
- Business incubation – including product development and business planning.
- Finance - linking workers savings with their co-operatives.

In Mondragon business development is not about creating new enterprises as such, but about creating new products, and then raising capital, finding the right people and developing enterprises to supply them. As a result much of their effort goes into research and development which is big business and which has been supported by the Basque Government since 1982. The IK4 Alliance consists of nine research centres, three of which are co-ops and six not-for-profit foundations.

The largest such centre, established in 1974, is IKERLAN, a mixed co-operative owned by some of the manufacturing co-ops, Mondragon University and the bank Caja Laboral.² It develops highly sophisticated electro/mechanical applications, and has been so successful that Microsoft has established a development centre just across the valley to further develop the work they have been doing in partnership with them. IKERLAN now works with other Universities and conventional businesses, and is funded roughly 40 per cent by Basque Government research programmes and 60 per cent by the co-

operatives and companies it works with.

IKERLAN has established strategic alliances with other institutions and universities throughout the world including Berkeley and MIT, and now has a turnover of €21.8 million. It is still based in its original building, although this has been enlarged over the years.

Mondragon University is also active in research and development through a linked co-operative, Mondragon Innovation and Knowledge. This is a mixed co-op owned by the Mondragon Corporation, IKERLAN, and ULMA, a grouping of seven worker co-ops specialising in construction and allied products, and employing over 4,000 people with a turn-over of €625 million a year.

Education and training

Mondragon University, itself a co-operative with students and staff as members, began life as a technical school in 1943 teaching 14-18 year olds. It has slowly developed into a modern engineering-based university with 3,100 students in Mondragon and a second campus in the neighbouring town, Onati. There is an engineering and teaching faculty and a business school. A large proportion of the teaching is in English, as the University recognises the need to compete in the wider world.

Linked to the University is a student-owned co-op, ALECOP, which was formed specifically to provide work for the students to help to pay for their fees and living expenses. Unlike the UK where university education was once free, universities in Spain have always charged fees and working was the only way for poorer students to attend college. ALECOP specialises in four-hour shift working so that students have enough time to study. It manufactures a range of electrical and electronic equipment as well as office furniture, and is owned and run by its student members.

Business incubation

In 1985 the Mondragon Corporation established SAIOLAN, a business incubation and development centre, for the following reasons:

- It wanted to address the unemployment problems amongst recent graduates from Basque universities, 60 per cent of whom went straight from university to unemployment.
- The Bank of Spain had recently ruled that the Caja Laboral should concentrate

solely on its financial business and instructed it to close its business advice division with 120 staff.³

SAIOLAN operates from a large modern building in the Mondragon valley and provides product research and business development. It works closely with existing co-ops to develop and prototype new products and services, and bring them to market. Those going through the programme, usually recent graduates, are given access to desk and computer space, laboratory and prototyping facilities, as well as support with business planning, financial modelling, and market research.

Students of the programmes are able to access some Basque Government 'Enterprise Allowance' funds as well as some capital grants, although like Government funds everywhere, budgets are limited.

Finance

Finance is provided almost exclusively by the workers, through the Caja Laboral, or from other co-ops within the Mondragon Corporation.

The Caja Laboral was founded in 1959, shortly after the Mondragon project was started, and has been key to its development ever since. It has grown to have assets of over €21 billion, 365 branches across Spain and 1,880 worker members. It is sometimes described as a credit union. However, it is fundamentally different since it is a multi-stakeholder/worker co-operative, 57 per cent owned by Mondragon Corporation co-ops and 43 per cent by the workforce. To the Mondragon members, co-operation is about the workers owning the business, and the UK model of consumer co-operative, such as the co-operative shops, is not one they are familiar with.

From its foundation Caja Laboral invested its reserves in Mondragon co-ops. This is part of the reason for the growth of the Mondragon Corporation as the profits and assets are all recycled into the local economy. However, following the actions of the Bank of Spain in 1982, when it ruled that only 10 per cent of any Spanish bank's assets could be invested in one place, local lending had to be reduced. As a result only 2.8 per cent of its reserves are now invested in the Mondragon Corporation itself.

Of the Caja Laboral's lending, €3.6 billion goes to wholesale finance for co-ops, and €13.8 billion is in local domestic mortgages.⁴ In order to ensure this ruling does not stifle available funds, the Caja Laboral has established joint funding arrangements with the big five Spanish banks, and their own lending is used as a lever to bring in

outside funds when required.

The bank also funds two business development programmes from its own profits. Gaztempresa, originally a young people's enterprise scheme set up in 1994, receives 10 per cent of all Caja Laboral profits. It provides mentoring and support, which is now available to people of all ages. Since 1994 it has established 2,600 businesses, with 80 per cent surviving after three years. Many of these are not co-ops, but are often sole trader and small family businesses. They also fund the Mondragon Development Fund with a further 20 per cent of their profits.

The Mondragon method

Mondragon business development follows a clearly established, carefully designed method, reflecting the influence of engineers in the system. The core element in effect is a tithe.⁵ New co-ops that join the Mondragon Corporation undertake to give 10 per cent of their profits to the Mondragon Development Fund. This is held at the Caja Laboral, but is owned by the Corporation and used to invest in new co-ops.

Under Basque law co-ops are based on share ownership. As a result the Mondragon Development Fund is able to invest in any new co-operative formed by buying a proportion of its shares. In turn this means the new co-operative is not over exposed to the problems of borrowed capital. Loans have to be repaid to a schedule and with interest, even if the lender grants a 'holiday'. On the other hand invested capital, especially from a friendly source such as the Mondragon Development Fund, is a participant and will wait until profits are made.

The Mondragon mind-set is also based strongly around worker co-operatives, rather than consumer co-operatives. Consequently, a plan is always put in place to take the co-operative from its multi-stakeholder formation to 100 per cent worker ownership over time. However, no co-operative is set up without at least some financial contribution from the workers, based on the average wages paid in that particular area of work. Thus a highly skilled research and development co-op will require an investment from each worker of €15,000, a manufacturing co-operative such as Eroski will look for €9,000, whilst in the latest social care co-operative, GSR, they are expected to pay €3,000.

If they need it, workers are provided with loans from the Caja Laboral with a typical payback over six years. Once the co-op has repaid the capital to its initial investors and comes into profit, a dividend is paid on the workers' shares. However this is 'capitalised', in plain language locked into the co-op. The workers are unable to withdraw

their shareholding and its accumulating dividend until they retire, when it provides an attractive lump sum on top of the pension benefits they will also have accrued.

Notes

- 1 <http://www.onesociety.org.uk/research/pay-ratios/>
- 2 In the UK we would refer to the Mondragon 'Mixed Co-operatives' as 'Multi-stakeholder Co-operatives'.
- 3 At the same time they also had to divest their social security operation which transferred to the newly formed Lagun Aro which now operates the pension funds and social security provision of the Mondragon group of co-operatives.
- 4 Mondragon co-operative members get a special deal on their first house mortgage paying only the EURIBOR (Euro Inter-Bank Offer Rate) currently 1.3%
- 5 This should not be a surprise, as Mondragon grew out of radical Catholicism, and tithes were first officially recognised by Pope Adrian 1st in 767, and co-operation itself was mentioned in the papal encyclicals of Pope Leo XIII, *Rerum Novarum*, Encyclical Letter on Labour and Capital, 15 May 1891, and Pope Pius XI, *Quadragesimo Anno*, Encyclical letter on Reconstruction of the Social Order, 15 May 1931.

Chapter 4

A new entrepreneurial role for the Wales Co-operative Centre

Derek Walker

The primary goal of Mondragon continues to be creating or safeguarding employment for its members. This was also the starting point for the Wales Co-operative Centre. And whilst the Centre has received criticism at times for its focus on jobs - perhaps because this has been seen to be at the expense of more community based co-operatives - for me the visit to Mondragon confirmed that this has been the right approach.

The Mondragon co-operative businesses have been set up to provide job security and decent working conditions for their members. And because it is the members who own and control most of the businesses in worker co-operatives, this overriding objective is never lost. Mondragon's four-year strategies are driven by the objective of creating employment. The aim is not to maximise profits for individuals or shareholders. As a result research and development is focused on ensuring that there are products for their people to make when the existing ones become unviable. The expansion of their international businesses, many of which are not co-operatives, are justified on the basis that two jobs abroad result in one job in the Basque country. The needs of people are put before capital.

The Mondragon journey has always been about jobs. In the 1950s a local priest wanted to create jobs during a previous era of high unemployment. And what a success they have had. Today the Mondragon Co-operative Corporation has a workforce of 85,000, with nearly 40 per cent of those jobs in the Basque country and the same amount again in the rest of Spain. The Basque unemployment rate is noticeably lower than the rest of Spain, where it is touching 25 per cent. A large proportion of those jobs are in the manufacture of consumer goods, such as washing machines and bicycles, or in retail, at the large Spanish supermarket business Eroski.

Inspired by Mondragon and responding to the mass unemployment of the 1980s, the Wales Co-operative Centre has always been motivated by the need to create and safeguard jobs. The Wales TUC delegation believed there was a need to go beyond activity focused on attracting international businesses to set up branch operations, and to complement services that sought to grow existing businesses.

The Wales Co-operative Centre has fulfilled that role. We have helped many indigenous businesses to set up and grow over the years, including well-known names like the Calon Wen dairy co-operative in Carmarthenshire. But in learning from Mondragon today I can see an expanded role for us in creating employment on a larger scale. This could be achieved by improving links between co-operative businesses and universities, by promoting the worker co-operative model more widely in sectors such as manufacturing where there are currently few co-operatives, and by lobbying for more education about co-operatives in our schools and colleges.

We can also learn from the Mondragon Corporation's hard-headed, strategic approach to co-operative development. It has a four-year planning cycle whereby a structured, bottom-up approach is used to involve the member businesses in developing a strategy for the federation. One of the results is to identify sectors where new co-operatives can be established based on the potential for job creation as well as the surpluses that can be made. Current priority sectors include ICT, new materials, health and food, renewable energy and care services for older people.

Co-operative businesses work together to develop these new businesses. As part of the deal of being a member of the Mondragon Corporation, businesses agree not to compete with one another and to contribute 10 per cent of their gross profits each year. This money is used to invest in new businesses. It is the sixth co-operative principle in action – co-operation amongst co-operatives.

We were told how this worked in practice. The GSR co-operative is a nursing home business that has recently opened its first, wholly owned, nursing home. GSR operates other homes but this is the first time it has built a residence of its own. The new nursing home exists because several years ago the Mondragon Corporation recognised health and social care as a strategic sector that was growing and would enable the federation to diversify its activities. As a result the Corporation put up some of the capital required, as did an engineering co-operative and a catering co-operative. Now the business is profitable, employing 400 staff and the workers are gradually buying out the business.

No such strategic approach exists in Wales or even within the UK when it comes to developing co-operatives. Co-operative organisations do come together through the auspices of Co-operatives and Mutuals Wales, their umbrella organisation, but there is no commonly agreed strategy.

Ten years ago the Co-operative Commission was successful in providing a strategic

direction for the co-operative sector in the UK. The following decade has seen significant progress, particularly in the growth of the sector. In the way that the Welsh Government has moved beyond looking only at horizontal business support measures to identifying nine key economic sectors, there is a case for those of us in the co-operative sector in Wales to put together a similar strategy and work together to achieve it.

Like the members of the original Wales TUC delegation to Mondragon, there still seems to me to be no inherent contradiction between co-operation and trade unionism. Despite having their roots in different parts of the labour movement, there are no good reasons why the two traditions cannot work in harmony today. The 'mutual' suspicion that exists in some quarters of both movements is completely wrong headed. Both trade unions and co-operatives have principles of democracy, participation, equality, solidarity and education at their heart.

It is a fact that there are no trade unions in Mondragon. But that has probably more to do with the low level of union density across Spain, the later development of unions, the system of work councils and the fact that worker co-operative members in Spain have a status that is closer to self-employed than employed, than anything that is inherent in the nature of co-operatives. After all, members of co-operatives still need advice at work and representation when there are problems or negotiations about pay and conditions.

Mondragon University is now starting to look at how to strengthen the engagement between trade unions and co-operatives. They could do well to come to Wales where the relationship is positive. There is a Memorandum of Understanding between the Wales TUC and the Wales Co-operative Centre and a reserved seat on the Centre's Management Board for unions. We work together to save and create jobs. Indeed, it is the union representative who is often best placed to take forward an employee buy-out if a business owner is looking to sell the business or move out of Wales. The successful worker co-operative at Tower Colliery, which was led by NUM activists, is a good case in point.

Across the UK trade unions are already represented in the largest co-operative businesses, such as the Co-operative Group where USDAW, Unite, NACO and UCATT are involved, and the Co-operative Bank where Unite, NACO and the Britannia Staff Union are present. The GMB has a high level of union membership at the Wales Co-operative Centre. The relationship between trade unions and co-operatives has every reason to be a fruitful one.

Replicating all of Mondragon's successes in Wales will not be possible. Despite similarities, such as a thriving indigenous language, beautiful mountain scenery and a similar population size, there is too much that is different to make it possible to copy what Mondragon has done. Nonetheless, it seems to me, some of the learning can be translated and adapted for the Welsh context.

Action number one would be to help co-operatives work together in the way they do in Mondragon. Here, many of our successful enterprises hide the fact that they are a co-operative because they fear this will not go down well with customers. There is little evidence that many Welsh co-operatives know each other exist, let alone work in partnership.

However, if they were to work together more effectively there would be many advantages. One lesson from Mondragon is that by supporting each other with finance, sharing research costs or by trading with one another, co-operatives can be more successful as individual businesses. We could start with small steps, such as shared co-operative stands at trade fairs, or by helping co-operatives to connect via local networks. After all, co-operation amongst co-operatives is the sixth co-operative principle.

A second action would be to promote the adaptability of the co-operative model. At Mondragon it is tweaked to suit the circumstances. Many businesses are termed 'mixed' co-operatives. They are not made up just of workers but might involve the Mondragon Corporation, the bank, another business or another section of the community. All own a share in the business.

Another example of this flexibility - perhaps we should refer to it as creativity - is the Eroski supermarket model. The business is part worker co-operative, part consumer co-operative and partly not a co-operative at all. The details are complicated and some of it difficult to follow. But what was clear is they did not get too hung up on the purity of the model. Priority was given to thinking about how co-operative values and principles could be applied, and then the form was developed to suit the circumstances.

In the UK there exists a multi-stakeholder model, which allows this flexibility. It enables a co-operative enterprise to be 'shared' by more than one group of stakeholders. Democratic control is shared by a variety of stakeholders that work together to achieve their mutual interests. For example, a community supported agriculture scheme could be 50 per cent controlled by producers, and 50 per cent by

consumers. Or a business could be 60 per cent controlled by its workers, and 40 per cent by the local community!¹ The model is not yet common and the potential for it to be applied to services such as social care, where both workers and service users could have a stake, is so far untapped in the UK. Making more effort to promote the flexibility of the co-operative model is another one for the action list.

A third action is to make efforts to apply the learning from co-operatives to the rest of the private sector. So much of the learning from successful co-operative businesses could be applied to mainstream businesses, without them becoming a co-operative. Concepts of employee engagement and co-operative leadership could be applied to most businesses. The best business leaders recognise this already; it is not a revolutionary idea. These concepts are found on leadership and management courses throughout the world. Trade unions have also been pushing for their adoption through their partnership agenda for many years. In Mondragon there is a co-operative culture management school that nurtures the culture of the businesses because it helps make them stronger and more profitable. Working with universities we could develop something similar in Wales.

A fourth action is to develop a strategy for the co-operative sector to provide it with a route map for the years ahead. To support this strategy there is a need to consider the funding needs of co-operatives. The availability of affordable finance was a crucial factor in Mondragon's success.

Conventional bankers often find it difficult to understand the way co-operatives work and so are sometimes reluctant to make a commitment to them. We need to revisit the call that was made thirty years ago for a co-operative investment fund and look to plug the current gaps in funding for the sector if we are to achieve our goal of a step change in the growth of co-operative businesses.

Our experience at the Wales Co-operative Centre indicates there is a need for more funding to support co-operatives, as many banks are unfamiliar with the model. In particular, some banks are reluctant to be the principal investor into the transfer of businesses into employee ownership. Co-operative and Community Finance exists to lend to co-operatives but its funding is limited.

On the micro business side, it is now possible for credit unions to lend to businesses. There is value in carrying out feasibility work into how this could be pursued as a way of providing support to small co-operatives.

In 1981 the Wales TUC Mondragon delegation had a clear idea about what it wanted to achieve when it returned to Wales. The 'resource centre,' that became the Wales Co-operative Centre, has been the main output. Over the last thirty years the Centre has succeeded in achieving the Wales TUC's original objective. This was "to assist in enabling workers to own and exercise democratic control over their place of work and... assist in the creation of enterprises".² The Welsh economy would have been significantly weaker without the Centre's existence. If we were to be as successful in implementing some of ideas that have emerged from our 2012 visit, then the trip would have been more than worthwhile.

Notes

- 1 www.somerset.coop
- 2 Wales TUC Annual Report 1981, p 192.

Chapter 5

Extending the co-operative model to public services

Mark Drakeford

Thirty years ago, when a group from the Wales TUC visited Mondragon, the notion of a connection between co-operatives and public services would have provoked a puzzled reaction on both sides.

In the Basque country, 1981 was less than six years on from the death of Franco, in November 1975. The Spanish economy continued to be relatively closed to the outside world, with membership of the European Union still five years away. Six months after Wales rejected devolution, a 1979 referendum endorsed the creation of an autonomous government for the Basque country. The TUC visit took place only weeks before the failed right-wing coup at the Spanish Parliament in Madrid. It also took place 18 months before the electoral victory of the Spanish Socialist Workers' Party, in October 1982, which, for many historians, marks the establishment of post-Franco parliamentary democracy. That election also marked the transition, in Spanish public services, from a Catholic-corporatist model to one closer to the European mainstream.

The United Kingdom of 1981 was as close in time to the great post-war Attlee administration as we are, today, to the time of that TUC visit. The group arrived in Mondragon at a point where both Wales and the Basque country stood on the cusp of a series of constitutional, economic and social changes.

In Wales, the failed referendum on a devolved Assembly had apparently removed that possibility from the agenda for as long as anyone could foresee. In economic and social policy a hegemonic shift was underway, replacing the collective and Keynesian foundations of the welfare state with an agenda of neo-conservative individualism. The first Thatcher term concentrated its efforts to roll back the frontiers of the state on economic policy. In a practical sense the assault on public services was still two further General Election victories away, in the third and most radical Thatcher term, after 1987.

Thirty years ago, the Mondragon experiment, although well underway and already embarked on the path of innovation and experimentation, which has since become its hallmark, remained firmly aligned to its industrial and

educational roots. It continued to advocate a particular model of co-operation, organised around worker ownership and self-management and the production of manufactured goods – a set of messages which the Welsh delegation of 1981 took away with them.

Thirty years later, the position has changed in both places. Over that period, the expansion of the Mondragon Co-operative Group has been a worldwide phenomenon. Yet, it is only very recently, and modestly, that it has embarked upon the direct provision of public services, beyond those already provided as part of co-operative membership.

For more than a decade, devolution within the United Kingdom has produced an increasingly divergent approach to public services, across the four constituent nations. At the centre, the drive has been towards diversification and marketisation, under parties of all political persuasions. In Wales, by contrast, and to paraphrase a recent leading article in the British Medical Journal, the aim has been to remain as close as possible to the founding principles of the 1945 welfare state. Or, as First Minister of the Welsh Government, Carwyn Jones put it to the 2012 annual conference of Welsh Labour:

“Let me state for the avoidance of doubt, that I strongly believe in accessible, high quality, citizen-centred services for all – not choice for the few. Publicly funded, publicly provided and free at the point of delivery.”

What does all this mean for any lessons which might be drawn from the Mondragon experience, as far as the future of public services in Wales are concerned? Let me be clear about my own conclusion. The pursuit of a set of lessons which can be picked up elsewhere, and applied to Welsh circumstances, is the pursuit of a chimera. The particularities of what has been achieved in Mondragon are the product of a set of economic, political and cultural circumstances, which cannot be replicated. Any analysis which is likely to be useful, rather than rhetorical, will need to be both more detailed, and more sophisticated, than a simple exercise in breast-beating, where alleged Welsh economic ‘failures’ are contrasted with apparent successes elsewhere.

Against that background, I want to address three things. First I set out a series of principles which, it seems to me, underpin the success of what has taken place in Mondragon, and which might have some prospect of being applied in the Welsh context. Second, I explore, in more detail, one specific example of co-

operative public service development that is taking place in Mondragon, looking for synergies with the experience in Wales. Finally, I draw some conclusions about that experience, and look at whether and how co-operative development of public services in Wales might be shaped in the future.

Mondragon principles

Time after time, in our visit, those we met emphasised that the Mondragon success was not the product of a set of technologies, or even the financial self-reliance which its organisation has fostered. Rather, we were told, the Group is underpinned by a set of core principles which best explain its growth and achievement. Here, I highlight just three that seem of especial relevance to public services.

Quality of ideas matters most of all. The Mondragon Group invests a huge effort - intellectually, organisationally, and financially - in the identification of new products and services, which can help sustain its activities, and the jobs of its members, into the future. By the end of the next five-year period, the Group expects a staggering 25 per cent of its total income to be derived from goods and undertakings which do not feature in its repertoire today. In the Mondragon model, innovation is neither left to some lone entrepreneurial genius (as so often mythologised in the British context), nor delegated to some peripheral 'add-on' to mainstream activity. Rather, it occupies the celebrated centre of the organisation, recognised and understood by all as holding the key to the future.

Risk sharing is the common characteristic of all co-operative activity. Membership of a Mondragon co-operative is a mark of prestige and of pride. Those with an interest in British political history would soon identify links with the Guild Socialism of the interwar period - with its strands of Catholicism, distributivism and the importance of the work place.

One of the very first things which any Mondragon member tells you is the name of the co-operative of which they are a member, and the number of years of their membership. Many co-operatives have waiting lists for membership. All require the investment of the equivalent of a year's salary, by each individual, as a condition of membership. Thereafter, each member is expected, individually and collectively, to take responsibility for their own work performance, sharing ownership, management and results - losses as well as profits.

Critically, the sense of solidarity, and democratic determination, which characterises individual co-operatives, has been extended to inter-co-operative co-operation as well. We were told that this was the single most important factor in co-operative growth in Mondragon. If work becomes scarce in one co-operative, jobs will be offered to displaced members in another part of the Group – almost always within one week. If one co-operative runs into short-term financial difficulty, it has a call on a collective Fund, established within the Group for that purpose. When a new co-operative is being established, the risk of doing so is mitigated by a pooled resource, drawn from the annual gross profits of the Group and set aside to support new ventures, in their formative period.

Organisational form can be adapted to reflect new functions. As noted earlier, the Mondragon Co-operative Group was founded, very firmly, on a worker-owned, worker-run, model. From very early on, however, it displayed willingness, and an ability, to adapt to meet different circumstances. The Mondragon School, for example, is organised as a co-operative where both staff (as workers) and families (as users) are members. The Mondragon University, also a co-operative, has three categories of membership – staff, students and ‘collaborative members’ – the last comprising local community, local authorities and local businesses. The EROSKI supermarket chain (the single largest enterprise in the Group) has two categories of membership – workers and customers, each with 50 per cent of the votes at the General Assembly.

Today, the Group is in the process of creating new, ‘mixed’ forms of co-operatives, to take account of new acquisitions, both within Spain and across the world. The details are less important than the adaptability which the underlying approach demonstrates. There are core co-operative principles – democratic ownership, participation, equality – but they can be applied pragmatically to meet changing circumstances.

Mondragon and public services

As noted earlier, the Mondragon experience has its roots very firmly in manufacturing. Its shift into services has been tentative and recent. The process began, and has continued, with an interest in providing services for older people. Involvement in this sort of work was first identified in the 2001 Mondragon Co-operative Group development plan. It is endorsed in the latest iteration of that plan, which has recently been confirmed for the period 2013-18. In it services for

older people appear amongst five sectors identified for priority innovation and investment.

The reasons for this shift are clear enough. In the first place, the generation of workers responsible for the earliest phases of Mondragon's own development is reaching old age. There is an identifiable need for services to meet their needs, as well as the more general Basque population where the proportion of older people is set to grow over the next decade. The success of co-operative employment means that many of those who need services will be better placed to afford them than in the past, and state funding in this area has also increased, at least until the current crisis in the Spanish economy. The result is a relatively reliable set of funding streams to pay for services provided.

It was against this background that the Group first moved into management of residential care services, in 2003. Today, it manages ten residential care homes, on contract from public authorities or not-for-profit bodies. It is also involved, in a smaller way, in day care (attached to five residential care establishments) and domiciliary care. However, a major development took place in June 2009, with the opening of the Group's first wholly owned and run residential care home, in Mondragon itself. A visit to the home formed part of our study tour in April 2012.

The experience conformed to all three of the principles outlined above. In the first place, the success of the venture depends on the quality of the ideas, which it embodies. The home undoubtedly provides a high level of care, in every aspect. As might be expected in a purpose-built facility, costing 12 million Euros to construct, the quality of the physical fabric is of a very high order. The quality of care, too, is infused with explicit values of generosity, simplicity and respect. The home provides a combination of different services, under the one roof – residential care, day care, respite care and nursing care. It shares a set of characteristics with the most progressive, 'extra care' developments to be found in Wales.

While the home faces many of the challenges which characterise residential care of older people in the UK context, the most striking difference was to be found in the on-going involvement of families in the lives of residents. To enter a residential care home in the UK is to cross a threshold from one world to another. Homes, which aim to create a permeable relationship between the lives of their residents and that of the community outside, are rare. Not least, they have to operate in the face of a set of regulatory inhibitions and attitudes from the outside world which vary from indifference to hostility.

In the Mondragon case, by contrast, it was clear that, from quite early in the morning, family and community members, of all ages, were a living presence in the home. Relatives, we were told, would call in on their way to work. Parents of young children, out for a walk, would stop off at the home, as an unremarkable part of a daily routine.

If the quality of the ideas at the home was of a high order, risk sharing was also clearly at the heart of its operation. Built during the height of the global economic crisis, the 12 million Euros needed for its construction were put together as a result of the following contributions:

- **10 per cent** – from the 240 members of staff who are co-operative members: 95 per cent of whom are women and work full time.
- **40 per cent** - from the Mondragon Group's Development Fund, set up explicitly to develop new co-operative ventures.
- **50 per cent** - from those individual co-operatives most closely associated with the new venture. This entailed major investments from the Mondragon co-operative, which designed and oversaw the home's construction and the co-operative which provides all catering to the home.

Residents are currently a mixture of retired members of Mondragon co-operatives and other local people from the Mondragon valley and its immediate neighbours. The home is able to offer 30 day-care places, and up to 170 places for residents. However, the call for respite care keeps the number of permanent residents to between 140 and 150 at any one time. Fee arrangements are very similar to those to be found in the UK. Some 20 per cent of residents are private payers; 80 per cent are publicly funded. Public funding makes up the difference between a contribution from residents themselves and the full costs. Individuals must contribute 80 per cent of pensions. Private payers can buy more care through top up funding.

Mondragon's move into public services, through care of older people, has also been accompanied by the pragmatic adaptation of the core co-operative model to this new area of activity. The differing levels of investment needed to establish the new co-operative are reflected in its governing arrangements during the foundation period. However, year-on-year the share taken by workers will increase, as profits

generated by the co-operative are used to repay other investors.

For example, the food co-operative which made a substantial contribution to the original 12 million Euro investment, has already been repaid in full, and its share in the governance arrangements transferred to worker members of the new co-op. Within a decade, the process should have been concluded, with the co-operative then wholly owned by its workers. At the same time, some consideration is to be given to the possibility that residents, through their families, might be able to become co-operative members, as well. The frail nature of the resident population means that, with most individuals expected to remain at the home for a maximum length of stay of five years (and usually less), there are issues of stability and capacity to be thought through. However, the Mondragon School model, where parents are co-operative members, and can continue to be so even after children have moved on to work or later education, may well provide a guide to future co-operative arrangements in the residential care sector.

What does this mean for Wales?

My first conclusion, from all that has been set out above, is that we need to bring about a cultural shift in the way in which co-operatives are regarded in Wales. We need to move away from seeing them as being a solution of the last resort, attempted only when all else has been tried and failed. Instead, we should adopt a position where co-operative solutions are the model of choice. In Mondragon, co-operative membership is both sought-after and requires a real individual commitment. Co-operatives succeed, in a highly competitive environment, because they command the confidence and the loyalty of workers whose own commitment to the long-term future of the enterprise helps generate the loyalty of consumers.

In relation to public services in Wales we need some smart thinking, rooted in core co-operative principles, combined with a willingness to adapt organisational forms to particular purposes and circumstances. My own view, for example, is that the starting ambition for co-operatives in this area ought to be to identify a niche place in public service provision, avoiding the dangers inherent in an indiscriminating proposition (familiar from Big Society advocates) that co-operatives provide a panacea to perceived shortcomings in the 1945 model of the welfare state. That also means, I believe, that in Wales the place to start is not with those services which are already publicly provided, but with those which are already, very largely, in the private, profit-making domain, but which also remain, very largely, reliant on public funding.

Services for older people offer the most obvious fit with these basic propositions. The Southern Cross scandal has exposed the deficits of current models of private residential care. Research by the GMB suggests that the funding basis of one of its major successors, Four Seasons, is similarly flawed, and relies upon extracting £8,000 in profit for each bed occupied, each year.

Moreover, there is undoubtedly a willingness amongst some major Welsh housing associations to invest more in this sector. The Mondragon experience suggests that real advantages could be secured through an alliance between a not-for-profit-distribution operating environment and a service provided in a co-operative alliance between workers and users. At the same time, domiciliary care services may offer even greater potential for co-operative action in Wales. For more than 20 years, public funding has shifted towards helping people to stay in their own homes, rather than entering residential care. However, such services are almost wholly provided by organisations operating on the basis of private profit making.

In a sample week in September 2010, 17,205 older people and 4,603 younger adults were in receipt of publicly funded domiciliary care in Wales.¹ Of 354 domiciliary care agencies registered with the Care and Social Services Inspectorate Wales on 31 March 2009, 87 per cent were run by the independent sector. Such providers delivered 7.6 million hours of publicly funded homecare in 2010-11, or 68 per cent of all state-funded domiciliary care services. As in each of the UK nations, the proportion of such services delivered by private, profit-making providers has increased over recent years, and seems set to continue to do so. Today, local authorities in Wales rely, to an overwhelming extent, on contracting for services with such providers.

Yet, the overall health of the sector is uncertain. As in residential care services for older people, there is a meta-movement towards consolidation, in which the number of private providers is reducing, while those which remain get larger. More than three-quarters of independent sector domiciliary care companies now provide more than 200 hours of care a week. At the same time, local authorities have reduced the number of companies with whom they contract. The emerging pattern is one familiar to anyone who has taken an interest in the Southern Cross experience, with reliance on fewer, but bigger, eggs in the domiciliary care basket.

At the same time, the financial health of domiciliary care is under huge pressure. Understandably enough, local authorities respond to their own financial difficulties by seeking to drive down costs – reducing the number of visits made,

the range of tasks which can be undertaken on any visit and the length of time spent on any visit. In oral evidence to the Assembly's Health and Social Care Committee in late April 2012, the UK Home Care Association reported that one in five of its members did not expect to be in business within a 12-month period. There are some real vulnerabilities in the sector, and an increasingly urgent need for active steps to be taken to improve its resilience.

What does all this mean, as far as co-operative solutions are concerned? In my view, the key conclusion is the fundamental necessity of applying the basic lessons from Mondragon – high quality innovation, risk-sharing and organisational flexibility – if we are to devise new ways of providing such services, co-operatively, in the future. Users of domiciliary care stretch across a far wider scope of need, and length of engagement with such services, than is the case with residential care. Users can begin, in relatively healthy old age, with a need for relatively basic services, such as help with gardening or cleaning. At the other end of the spectrum, domiciliary care includes intensive personal care of individuals being maintained in their own homes, with intervention regularly throughout the day. These patterns argue for a co-operative model in which both workers and users can become members and in which income streams can be generated from both individual and public sources. They also point in the direction of a new, Beveridge-style form of social insurance, in which risks are pooled across the population, in a fundamentally co-operative fashion.

Crucially, as far as domiciliary care is concerned, the co-operative approach would be applied in an area where services are already dominated by private, rather than public, suppliers and where a proportion of almost every public pound invested is currently set aside to generate profits. A new co-operative effort in domiciliary care would be a way of helping to rebalance the market, moving such services back towards a set of public interest principles and provided on a not-for-profit distribution basis.

How can this be made to happen? The experience from Mondragon suggests that the main impetus must come from the co-operative movement itself. Meanwhile, government has a role to play, at both the Welsh and local authority levels.

Mobilising the political leadership to make that happen is an on-going process. Co-operative businesses in domiciliary care will have to be their own strongest advocates, showing why they ought to be the first choice for users, workers and commissioners alike. I came away from Mondragon struck by the way in which

it combines a commitment to ethical enterprise with an underlying sense of mission, in which the positive promotion of co-operation forms an integral part of all it does. Attempting to recreate some of that passion, here in Wales, may be the best place to start.

Notes

- 1 All the figures provided in this section are taken from evidence provided to the Health and Social Care Committee of the National Assembly, as part of its 2012 Inquiry into residential care services for older people in Wales.

Chapter 6

The culture of Mondragon

Liz Moyle

Mondragon was forged in the wake of the turmoil of the Spanish Civil War with close links to the established Catholic church. It set out to alleviate poverty through the creation of employment by creating businesses and up-skilling technical workers, and pooling and reinvesting the wealth created in the community. It has more than 83,000 members, a turnover of €14 billion, and businesses ranging from vertical transport (lifts), and machine tools to care homes. Established in a tightly knit community, both restricted and aided by its geographic position, its people sought expression for their national aspirations through their language and through Mondragon. What lessons can we learn from Mondragon?

We know that Mondragon faces challenges. For example, the demand for the products of its domestic appliance manufacturer Fagor have been badly hit by the recession. Meanwhile, the growth of its supermarket chain Eroski, purchased through taking on debt, is similarly affected. However, Mondragon maintains flexibility within its workforce through absorbing potential redundancies in other parts of the Corporation. Not all are members. Some are temporary workers and others abroad are not yet within the worker member system. The latter has been subject to much criticism, with the co-operative being accused of acting as a capitalist employer. Nevertheless, the business and employment at home has been maintained and the offer of full membership is still a target.

During our visit we visited Mondragon's small headquarters; Fagor Electrodomesticos; Otalora, the co-operative and management training centre; the Eroski supermarket chain; Mondragon University; Saiolan, the company incubation centre; Ikerlan, the technological research centre; and Caja Laboral, Mondragon's bank. We spoke with management and staff and viewed the work of the students. All were powerful advocates of its structure and benefits to the wider community.

Of course, many of these activities are not unique. The idea of employee engagement is now part of mainstream people management, an expression of corporate social responsibility. What is there about the culture of Mondragon that has made it such a success? The following features are worth noting:

- Mondragon adds an intense formal process to the enthusiasm of the start up co-operative/entrepreneur and includes them within a federal structure of support.
- Within its manufacturing processes production line teams are allowed a degree of autonomy and worker contribution to management processes is encouraged.
- The skills of staff are harnessed to look at innovative ways to deal with the need for innovation as a business matures. For example, domestic appliance skills in shaping steel sheeting have been put to use making steel furniture.
- A great deal of attention is paid to detail, to the design and quality of goods. There is the expectation that quality and setting high standards will inculcate an atmosphere of success.
- Technological innovation and product change is a high priority for investment.
- All levels of staff receive training about the history of Mondragon and the nature of their co-operative culture. There is concern that the message of the founders may be lessened over time.
- Engagement of staff is intrinsic in the organisation due to the ownership model. It is interesting that simple engagement is not regarded as enough. Engagement though a co-operative culture is required.
- The management and support of co-operative enterprise is highly concentrated.

At the Otorora management and training centre we heard how it is possible to manage culture, to affect collective behaviour, to see that the culture of an organisation is composed of what you do, not what you say. The main levers of leadership - a shared project, participation, autonomy, empowerment and training - can lead to social change and collective effort to aid economic development. This is the subject of research at Mondragon University where they are looking at the effects of employee participation on enterprise ownership, positive economic and psychological outcomes, together with improved indicators of wellbeing and social capital. All these bring benefit to Mondragon itself and the community as a whole.

I came to the rather simplistic conclusion that Mondragon's culture is rather like the difference between a workforce learning a new process to aid profitability and a workforce raising money, as they think fit, for a charity or a purpose they believe in. How many of us find greater fulfilment in voluntary activities than we do in our day-to-day work?

Our mentor, Mikel Lezamiz, said that workers should view their individual work for the co-operative as contributing to something significant, in the way that a stonemason contributes to building a cathedral, stone by stone. How many of us apply this vision to the contribution we make at our place of work? Would we be embarrassed to be

seen as building co-operative 'cathedrals'?

In Wales the Co-operative Group is the largest consumer co-operative, with more than 500,000 members, 4,500 staff, and a turnover of £588 million a year in businesses ranging from petrol stations to banks. One in six of the population is a member. The Group is delivering on a progressive social agenda aimed at building a better society through its new Ethical Operating Plan. The opportunity to engage workers, 85 per cent of whom are members and stakeholders, is outstanding.

How then should we reward them? Is engagement enough? If indeed the employees (and members) within this consumer co-operative are to help build a better society, and a better Co-operative Society, how do we capture the skill and excitement? How do we show them that this is something different?

Keeping communities thriving through a mixture of community investment (10 per cent of profits available for distribution), an enhanced employee volunteering policy, our stores and branches act as a focus for 10,000 community initiatives a year. Surplus properties are made available to local community groups at a nominal rent. How well do we spread these messages?

Through our Enterprise Hub we support new businesses, including Cheviot Care – a co-operative dedicated to providing long-term home care for some of the most vulnerable people in the community. In Nottinghamshire we set up a carers conference where advice was available on banking issues faced by carers. In Wales we work with the Co-operative Centre.

Innovation and entrepreneurship needs the continued input of workers and members, sustained by a close community of like-minded people. Can we mirror the support given by Mondragon? In the Basque Country co-operatives are embedded in a community support structure that provides financial, business, educational, philosophical and social support. Help is given to save the jobs of the worker-owners whose co-operatives face difficulties. In this way co-operatives become a community resource as well as a way of socialising finance capital. The main objective is not the short-term interest of capital but the long-term health of the co-operative and the co-operative system.

In Wales we provide support but it is more fragmented. We do not see co-operatives as a prime social or financial model. How can we make it more embedded? In 2004 the Audit of Co-operative Activity in Wales identified seven key recommendations.

One was that the Welsh Government should work through the Wales Co-operative Centre to develop inter-co-operative linkages across Wales. The Co-operative Centre is playing a vital part in contributing to this but so too must the co-operatives themselves. We need to co-operate more. We should all become ambassadors for co-operation and its positive benefits.

We need to begin a conversation throughout the co-operative movement aimed at finding ways to embed the co-operative culture more firmly within the Welsh economy. The more we become conscious of this project being part of a national movement across Wales the more we are likely to succeed. Of course, Mondragon is unique. We are not going to replicate a Mondragon in Wales. However, we can aspire to absorb part of its co-operative culture and create our own movement to make it a more central part of Welsh life.

Notes on contributors

Alex Bird is Executive Chair of Co-operatives and Mutual Wales, the representative body for the co-operative movement in Wales. Previous occupations have included work as a power engineer with the Central Electricity Generation Board, founder of printing co-operative in Cardiff, Community Enterprise Development Officer with Cardiff County Council, Chief Executive of the Innovate Trust which provides services for people with disabilities. He is now a freelance business consultant specialising in co-operatives, and chairs the Institute of Co-operative Studies at Cardiff Metropolitan University.

Ashley Drake is Wales Membership Manager with the Co-operative Group in Wales. In this role he is seeking to develop the profile of one of the largest co-operative business in the country. Previous roles have included Assistant Director at CBI Wales and Director of the University of Wales Press. Ashley wishes to learn how Mondragon works with and engages its membership.

Mark Drakeford is Labour AM for Cardiff West and chairs the Health and Social Care Committee in the National Assembly. Formerly a professor of social policy and applied social sciences at Cardiff University, he was for ten years before becoming an AM in May 2011, the Cabinet's social policy adviser at the Welsh Government and, latterly, head of the First Minister's political office.

Liz Moyle is an elected member of The Co-operative Group in Wales and sits on the Wales Board. Liz is also the Welsh representative to the Group's main UK-wide Board and thus the key findings of the visit to Mondragon will be relayed directly to the centre of The Co-operative Group in Wales and at the UK level.

John Osmond has been Director of the Institute of Welsh Affairs since 1996. A former journalist and television producer he has written widely on Welsh culture and politics. He will project manage the undertaking and be in charge of the editorial production of the publication that arises from the visit.

Derek Walker is Chief Executive of the Wales Co-operative Centre. Formerly he was head of policy and campaigns with the Wales TUC and head of external affairs with the Big Lottery Fund Wales.

The 2012 delegation from Wales to Mondragon - from left to right: Derek Walker, Chief Executive of the Wales Co-operative Centre; Mark Drakeford, Labour AM for Cardiff West; Liz Moyle, an elected member of the Co-operative Group in Wales; Mikel Lezamiz, Communications Director with the Mondragon Corporation; Alex Bird, Executive Chair of Co-operatives and Mutuals Wales; John Osmond, Director of the IWA; and Ashley Drake, Wales Membership Manager with the Co-operative Group.



LEADING THE DRAGON

Lessons for Wales from the Basque Mondragon co-operative

The Mondragon Corporation is a federation of worker co-operatives based in the Basque Country in northern Spain. Founded in the town of Mondragon in 1956 and inspired by a Catholic priest José M^a Arizmendiarieta, its origins were modest, beginning with a small workshop producing paraffin heaters and later a technical college. However, over the next five decades the group expanded to become a major economic player. Today it is the leading business group in the Basque Country. It is one of the ten largest Spanish companies in terms of turnover, comprises 120 co-operatives, employs more than 83,000 members, has a turnover of €14 billion, has a bank and numerous research institutes, and has founded a university with some 3,600 students.

In February 1981 a Wales TUC delegation visited Mondragon and came away inspired to found the Wales Co-operative Centre. This is now 30 years old and over the past three decades has had a substantial impact on the Welsh economy. In April 2012, another Welsh group, this time including today's Director of the Wales Co-operative Centre, returned to Mondragon to witness the progress it has made and to see what new directions might be possible. Informed by the visit, but focusing on the realities of Welsh experience, this publication suggests some developments that could further embed co-operative ideas in Welsh policy-making. These include a potentially transformative proposal for introducing a co-operative approach to the delivery of public services, especially those that currently involve sub-contracting care for the elderly to private sector providers.

Front Cover

A view of the Mondragon valley and the 'Dragon Mountain' that towers over it. Many of the buildings in the foreground house member co-operatives of the Mondragon Co-operative Corporation.

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