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The Mondragon Model A New Pathway for the Twenty-First Century

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In the last years of the twentieth century, capitalism and the marketplace have regained global preeminence. Socialist and Communist economies are considered failures, and based on their performance, that is as it should be. However, what has begun to reemerge is an attitude toward jobs and work that we have not seen since the Great Depression. Job security is considered part of an old paradigm that is rapidly disappearing. Enormous job cuts across the industrialized world are blamed on market forces that require the "leaning down" of organizations.

Bill Gates, head of a twenty-first-century organization, has said that the only security his employees have is their skills, and he supports their education to maintain and improve those skills. President Bill Clinton has repeatedly stated a similar theme: we must educate our people so that they can be employed in well-paid jobs. But one need only look at the number of well-educated people in the United States who are severely underemployed or out of work completely to know that education alone is not and cannot be the sole solution. This dilemma is repeated throughout the world.

Somehow, the for-profit enterprises, those organizations that create the jobs from whose wealth all other jobs are derived, must not accept the prevailing paradigm of lack of job security. To assume that it is impossible to create job security in the twenty-first century is to set a boundary that I believe is illusory. At least one significant experiment already exists that suggests otherwise. I would like to share that experiment as a model. I have been following it for fifteen years, and the success it has enjoyed is, at least in part, the result of reversing one of the most important premises of capitalism. The old rule of business is this:

When you are faced with the choice of risking your capital to protect jobs or risking jobs to protect your capital, always protect your capital.

The reversal is:

When you are faced with a choice of risking your capital to protect jobs or risking jobs to protect your capital, always protect your jobs!

The organization that has reversed the old rule is the Mondragon Cooperative, located in the Basque region of northern Spain. Mondragon represents a paradigm shift for organizational structure and thinking. I believe that an understanding of it, history, structure, and success offers a profound alternative to the singular corporate vision of the future that is now in ascendancy.

The History of Mondragon

The Mondragon Cooperative was started in 1954 by a Jesuit priest named Don Jose Maria Arizmendarreta (I will refer to him as Don Jose from here on) and five young men. Don Jose was a fascinating man whose background shows courage and a willingness to stand up for his beliefs. Upon his ordination, he was sent to the Mondragon region to minister to the people. When he arrived in 1941, he found great unemployment, poor education and no positive vision of the future. The assets of the region were few but important: industrious people who knew how to work hard, solidarity based on being treated badly by the Spanish government for hundreds of years, and a strong social structure.

Don Jose began the construction of his paradigm shift by starting an industrial apprentice school in the late 1940s. He also taught classes on ethics to young men who planned to start business someday. As the school grew, so too did the unemployment in the region, reaching 20 percent in the early 1950s. Don Jose had read the papal edict that said that the work should be considered part of spiritual development, and he was deeply disturbed by the number of his parishioners who, because of their lack of a job, could not participate in that aspect of their own growth.

In 1955, he began to take action to change the future of Mondragon. He invited five young men who had been in his business classes to go with him to raise money, in order to buy a business and bring it to Mondragon. They put out the word that they were looking for loans. They had no business plan; they didn't know what they were going to buy or what they would produce. Yet on the strength of their reputations, plus their own personal financial commitment to the project, they raised \$361,604! This in a community with high unemployment. In 1990 dollars, that would be about two million dollars.

With the money in hand, the five went shopping and purchased a small manufacturing company that made Aladdin kerosene heaters. One year after they

purchased it, they moved it to Mondragon and the cooperative was born. They named it ULGOR after the first initials of the five principals' names. When they asked Don Jose what they were going to do next, he answered, "We will build the road as we travel."

In 1956, the company had 24 employees. In 1958, it had 149 employees. In 1990, the Mondragon Cooperative Complex, of which ULGOR was the first of many connected cooperatives, had 21,241 member employees. It consisted of a complex of more than one hundred enterprises and was worth more than \$2.6 billion. In the last half of the twentieth century, Mondragon has grown and developed a unique worker democracy in which the employees own the enterprises, the capital-worker relationship has been inverted and entrepreneurship flourishes at a rate of success unparalleled anywhere else in the world.

The Principles of Mondragon

Five guiding design principles have resulted in Mondragon's incredible record of job creation and community continuity. Although the Basque country has special conditions that helped Mondragon flourish, any organization anywhere in the world can learn from this half-a-century-long experiment.

Power Structure

The first principle of Mondragon is that of democracy. It is a cooperative; therefore, every worker has a vote. The workers elect the board of directors and the board of directors hires the managers. This has a positive effect on the workers, because the people they elect are the people who hire their supervisors. If they don't like what the management is doing, they can always vote out the board. Part of the democratic structure is a worker's congress where everyone has a vote. There is also a "watchdog" council of workers that watches upper management and a social council made up of representatives of teams of twenty to fifty workers. In short, everyone has a voice and a representative with a voice. Although unions also exist within the cooperative, they play a very different role than in most corporations because of the high quality of communication between management and the workers and the power balance that is already in place.

In Short, the principle of democracy allows the workers to know that, if they wish, they can fundamentally restructure any or all of the Mondragon Cooperative Complex. They are the final decision makers.

Financial Structure

Worker democracies are unusual, but they are not unique. The financial structure of the Mondragon Cooperative Complex has no parallel in the world. Let's take a look at the key pieces.

First, all workers must put some of their own money into the cooperative they are part of. The money accumulates interest but can only be removed upon retirement. It guarantees that everyone has something to lose if the enterprise fails; it also carries with it a reward at retirement if the enterprise is successful. Second, a bank was created within the cooperative structure that serves the cooperative and is itself a cooperative. It has a very clear mission, which is to fund new jobs so that all people who wish to work in the Mondragon area can do so. This mission is even more important than making the best return on investment, thus violating the prevailing paradigm of banking. Simply put, the Mondragon cooperative bank risks its capital to protect the job base of the community.

All workers and the Mondragon cooperatives must use this bank. It holds the savings and retirement funds of the workers and processes all the funds flowing through all the Mondragon enterprises. In exchange for this monopoly of money, it provides services no other bank in the world provides to its members:

- Strategic information and guidance for both old and new businesses
- Up-to-date marketing reports that suggest new products and services that are needed in the region and throughout Europe.
- A staff of older executives ready to mentor new cooperatives
- A willingness to fund start-ups to create new jobs in the area

The Mondragon bank perceives itself not just as a guardian of the money it uses, but as a catalyst for creating new business within the Mondragon Cooperative Complex structure. It always has the welcome mat out for anyone who wishes to create more jobs. Because of this attitude and the great skills Mondragon has developed in nurturing start-ups, its entrepreneurial success rate has been 80 percent! That is the failure rate for the rest of the world!

By the 1980s, the cooperative's bank had funded over one hundred new cooperatives and only three had failed. One British economist studying Mondragon declared this rate of success to be so startling "as to be a miracle." Another researcher, Robert Oakeshott, wrote that if you measured the bank by the criteria of creating worthwhile jobs or mobilizing savings, "it is outstanding." So successful has this bank been that in the 1980s it had to petition the Spanish government to allow it to loan money beyond the legal limits set for it because it had more money than the cooperative could effectively utilize. In many ways, the bank as acted like the head office of a private holding company. The only difference is that it is owned by its customers.

The Education Connection

The third principle is linked to education. Remember that Don Jose had started a technical school back in the 1940s to serve the young people in the Mondragon region. That school evolved along with the cooperatives. The needs of the growing cooperatives were always connected to the curriculum of the school. Many of the students also worked at the co-ops, so they could see the direct connection between their preparation and their job. The school added students and increased the range of its curriculum. It added management and marketing departments and now is considered one of the best business schools in all of Europe. As of 1990, more than 6,500 students were enrolled in degree programs and 3,500 in other types of training courses. This direct connection to specific enterprises and jobs is rarely emulated in the United States except with such programs as the Motorola University in Schaumburg, Illinois. But here we are describing a complete community, with a commitment to sustain an educational system that reinforces the ability to keep jobs within the region.

By the way, those marketing studies the bank maintained for would-be co-op entrepreneurs? They were done, for the most part, as coursework for the marketing program at the school. What more powerful incentive could you give students than to know that their work might very well be the basis of a vigorous new enterprise just down the street?

Pay Scales and Equity

The fourth principle focuses on the concept of fair pay. This issue, symbolizing who is and who is not important in a society, is becoming a trigger in the United States as CEOs take larger and larger pieces of the pay pie. The Mondragon Cooperative Complex had three things going for it: fairness as part of the culture, a distinctly Christian slant to its enterprise ethics, and the Basque hallmark of moderation. As a result, the cooperative could create an extraordinary set of payment relationships and make them work.

Specific pay ratios were set in 1955 and held until the 1980s. The person at the top could earn no more than six times the salary of the person at the bottom of the cooperative. If the boss wanted a raise, everyone got a raise. In the United States, in 1996, the ratio is about 115 to 1 in major corporations. Recently, the ratios at Mondragon have increased to 15 to 1, because the rest of Spain has recognized how good Mondragon's managers are and lures them away with higher salaries.

Raises within various sectors of each cooperative are determined by many standard measures of productivity and absenteeism, but they also include unusual measures such as "relational skills," or how well the worker gets along with other people. That measure, in particular, constitutes 20 percent of the pay raise decision. Salaries are called *anticipos*, payments in advance of profits. Workers who choose to leave their job can be penalized up to 30 percent of the accumulated profits in their retirement fund. If they are fired for a grave offense, significant penalties can be imposed. In case of job loss, workers are paid 80 percent of their salary plus 100 percent of their social and health insurance for twelve months. The Mondragon Cooperative Complex is self-insured for job loss, so that is the very last thing it wants to happen. In fact, a whole series of actions must occur before a worker loses his or her job.

For instance, before someone is laid off, any profits accumulated during the year in the specific cooperative would be used to pay for the job position. If that is not enough, then all wages in that cooperative are dropped to 85 percent of standard. If that still isn't enough to finance the continuation of the job, the worker is transferred to another of the co-ops in the Mondragon structure. And if that job pays less than the previous job, the unemployment fund makes up the difference. Finally, if all of these efforts fail, the worker goes on unemployment and immediately begins receiving educational benefits to acquire new skills as fast as possible.

How well does this program work? During the world recession of the early 1980s, the Basque region lost 150,000 jobs. At the same time, the Mondragon Cooperative Complex created an additional 4,200 jobs. The final result: only 104 of its workers, or six-tenths of 1 percent, ended up unemployed.

Retirement

The fifth and last principle centers on all equitable retirement plan. The Mondragon Cooperative Complex self-funds and fully funds its retirement package. Workers contribute 32 percent of their earnings and receive 60 percent of their final salary. The cooperative also paid for all workers' health care until the late 1980s, when the Basque government assumed most of the financing. One nice touch is that as part of the retirement package, the worker is given a vegetable garden plot if he or she doesn't already have one.

Conclusion

There are many more provocative details in the story of Mondragon. But let me conclude with these observations for organizations that are looking for alternatives to the twentieth-century paradigm:

- Worker democracy and ownership is a real and viable alternative to the stockholder paradigm.
- Education plus community vision plus a bank that is committed to job formation instead of capital formation can create a long-term community job base.
- There is another way to create entrepreneurial wealth.
- Workers themselves can reinvent their work if the right kind of support is available.
- The role of a bank can be profoundly positive and supportive for communities if it has the right paradigm.
- Self-capitalization can be a powerful tool.
- The power of a shared vision cannot be overestimated.

The Mondragon model is not perfect. It requires a long-term commitment to moderation instead of excess. For too many in the industrialized world, excess is considered success. The Mondragon model also requires a commitment to the community and the people of that community rather than to a quest for short-term profits. And it requires a new kind of banking paradigm.

Yet Mondragon also represents something very important:

- It is a noble forty-year experiment illustrating that the marketplace of competition contains a significant place for cooperation.
- It is a work community where religious values and ethical considerations of fairness and democracy thrive to the benefit of capital formation and significant profits.
- It is a place where fear really has been driven out of the workplace in many ways.
- It is a clear demonstration that only human beings can add value to capital. It is never the other way around!

If nothing else, Mondragon serves as a reminder to us all that more than one pathway to the future exists. We must never be afraid to search for the one that lies on the highest ground.

Note: For further information on the Mondragon Cooperative Concept, see Whyte, W.F., and Whyte, K.K., *Making Mondragon*. (2nd ed. rev.) Ithaca, NY: ILR Press, 1991; Morris, D. "The Mondragon Cooperative Corporation." Research and report commissioned by Joel Barker. St. Paul, Minnesota: Institute for Local Self Reliance, 220 West King Street, St. Paul, MN 55107. (612) 228-1875, July 1992; Morrison, R., *We Build the Road as We Travel*. Philadelphia: New Society Publishers, 1991.

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