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Sources of Competitive Advantage in the Mondragon Cooperative Group

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Translated by Jennifer Martin

The Size of the Mondragon Cooperative Corporation

In 1956, five students from the Arrasate-Mondragón Vocational School established the enterprise ULGOR,¹ dedicated to the production of electrical household appliances, giving it the legal form of a cooperative in 1959. Fifty years after the creation of this first cooperative, the Mondragon experience has grown to establish itself as the seventh largest Spanish business group. It had 92,773 employees at the end of 2008, divided among 260 companies, half of which were cooperatives. The corporation had a turnover of €16,770 million in 2008, and has seventy-three production plants in eighteen foreign countries, as well as branches in another six.

Mondragon is a highly diversified business group, comprised of four areas: finance, industry, distribution, and knowledge.

The Caja Laboral Cooperative Credit Union stands out in the financial sector, with deposits of €13,988 million in 2008 and 401 bank branches in different regions of Spain.

1. The acronym ULGOR came from the last names of those five founders: Usatorre, Larrañaga, Gorroñoigoitia, Ormaechea, and Ortubay. That enterprise, which is now called FAGOR, is still one of the most important Mondragon groups in 2011.

The bulk of the distribution group's sales correspond to the superstores and supermarkets of the Eroski group. This group's consolidated sales reached €9,013 million in 2008 and it employed 52,711 people in Spain and France, mainly in superstores and supermarkets, although the group is diversifying into new businesses such as gas stations, sporting goods stores, perfumeries, real estate companies, optical centers, travel agencies, and entertainment and cultural centers.

The industrial group is comprised of 170 companies, divided into five subsectors (consumer goods, capital goods, industrial components, construction, and enterprise services). The value of its sales amounted to €6,511 million in 2008, with more than half of these (3,791) coming from international markets, and it employed 40,822 people.

Along with these areas, Mondragon has a knowledge sector that includes fourteen technological centers, a university, two vocational education or professional training centers, and a management-training center. Although the knowledge sector is smaller than the others in terms of revenue and employment (1,022 jobs, or 1.1 percent of all Mondragon jobs), it has been and will most likely continue to be an important area for the training and recruitment of personnel for the rest of the cooperatives and for driving innovation in the corporation.

These facts lead authors such as Katherine Gibson and Julie Graham to describe Mondragon as "the most successful and well-recognized complex of worker-owned industrial, retail, service, and support cooperatives in the world" (Gibson-Graham 2006, 102). This cooperative success has been studied from different angles by numerous researchers. Here, I intend to summarize this work that analyzes the existence of competitive advantages at Mondragon and the sources of these competitive advantages. This consolidated work can act as a guide and aid for all those researchers that wish to study the Mondragon experience in depth.

Do the Mondragon Cooperatives Obtain Better Results than the Capitalist Companies in Their Environment?

In spite of there being numerous references to Mondragon's economic success and the achievement of sustained competitive advantages over capitalist businesses in its environment, one must stress the existence of certain methodological difficulties in verifying Mondragon's achievement, or lack thereof.

The first difficulty in studying Mondragon's success is finding similar corporations or business groups with which to compare its development. Mondragon is a corporation that includes enterprises of quite different sizes, is highly diversified with varied businesses and sectors that range from banking and insurance to retail distribution, and spans across a multitude of industrial sectors. This has resulted in the literature on Mondragon to abound in analyses that compare the corporation's development with that of the Basque economy in general.

Another approach to analyzing the corporation's development seeks to compare it according on the basis of economic sector it is involved in. In this case however, the particular federal structure of Mondragon makes completing and validating such comparison highly difficult. New cooperatives have freely entered and formed part of Mondragon in different fiscal years, and in some cases, cooperatives have also left the corporation. For this reason, inter-annual comparisons with other companies that use indicators such as sales figures, employees, exports, and market share, do not exclusively reflect increased or decreased efficiency of the corporation. These indicators are biased by the entrance or exit of different cooperatives. It is necessary to stress that this bias is not taken into account in many of the analyses on the Mondragon experience.

In spite of these methodological difficulties in measuring the corporation's economic success, the bulk of the literature on the Mondragon experience coincides with stressing its success and in pointing out that the economic development of its cooperatives has been greater than that of the companies in its capitalist environment.

A large portion of the empirical evidence concentrates on the better relative performance of the Mondragon cooperatives during times of crisis.² Along with this better crisis response, another well-documented criterion is the lower failure rate of businesses in the group, during times of crisis as well as in normal periods (Ellerman 1984; Logan 1988; Smith 2001; Arando et al. 2010).

Another widely used argument, mainly for comparing the development of Mondragon's cooperatives with that of Basque and Spanish capitalist companies, is that of the cooperatives' greater exposure to international markets. For decades, Mondragon has had a greater percentage

2. See Bradley and Gelb (1983, 1987); Gorroño (1988); Logan (1988); Morris (1992); Albizu and Basterretxea (1988); MCC (2000a); Basterretxea (2008); Arando et al. (2010); Basterretxea and Albizu (2010).

of exports than the companies in its environment (Bradley and Gelb 1983; Logan 1988; Thomas and Logan 1982; MCC 2000a) and continues to do so today. Thus, in 2008, Mondragon's industrial division contributed 8.5 percent to the Basque Country's industrial GDP and 12.6 percent to industrial exports. Chris Logan (1988, 112) sees this greater international presence as an indicator of international competitiveness, an objective measure of the cooperatives' comparative strength, and better management, as well as a key factor in providing security to the group, all the result of a broader client base.

Similarly, authors such as Logan (1988); Christine A. Clamp (2000, 2003); Stephen C. Smith (2001); and Jon Charterina, Eneka Albizu, and Jon Landeta (2007) emphasize that Mondragon's cooperatives have had more success in the implementation of advanced management practices, mainly those related to total quality. All the same, these studies do not analyze the degree to which greater use of advanced management tools influences greater productivity in the cooperatives.

In a comparative study of cooperatives and Basque public limited companies highly innovative in technology and management, Sara Fernández de Bobadilla and Eva Velasco (2008 and chapter 5 of the present work) find that the ratio of Mondragon cooperatives among the most innovative companies is almost 50 percent, much higher than its economic weight. Based on a survey of sixty-six Mondragon human resources managers, Imanol Basterretxea (2008) finds that they perceived their cooperatives as having competitive advantages in attracting, developing, and retaining valuable personnel, along with advantages in knowledge management and in innovation areas. Again, these studies do not measure whether such advantages in attracting and keeping personnel, knowledge management, and innovation reflect greater productivity.

In order to confirm if a better economic performance by the Mondragon cooperatives over their rival capitalist companies really exists, it would be necessary to compare their productivity, but such studies are scarce and are not based on current data. Therefore, Keith Bradley and Alan Gelb analyze the productivity of the cooperatives in the 1970s and early 1980s, and come to a favorable conclusion on their performance: "The ratio of surplus to gross value added has exceeded that in the local industry by a considerable margin. . . . Overall, Mondragon has been prof-

itable and appears to have outperformed its capitalist environment by a considerable margin” (1983, 16).

Henk Thomas and Chris Logan arrive at similar conclusions after comparing the group’s cooperatives to Spanish industry during the 1970s. Using indicators such as value added per person, value added per fixed asset, net surplus per person, and a productivity index developed by Caja Laboral, they conclude that cooperatives have been more profitable than capitalist enterprises.

The major influence of these authors’ work, along with a certain optimistic or favorable bias toward the cooperative experience found in much of scholarly literature on Mondragon, has caused many subsequent studies to continue to treat the higher productivity of the group’s cooperatives as a proven fact, without conducting new empirical comparisons.

An exception to this optimistically biased literature can be seen in David Morris’s study, where he points out that cooperatives were concerned about their productivity indexes in comparison to those of their international competitors: “There is some worry that Mondragon’s enterprises have a lower productivity compared to international competitors and this could hurt them in a foreign competition.” Moreover, “Ormaechea has observed that their productivity ratios, measured by value added, are lower than those achieved by German, Italian, French by each industrial job, and considerably behind Japan” (Morris 1992, 53).

The development of the productivity indicator used by Mondragon, the value added per person, is analyzed by Basterretxea (2008, 177–79) based on employee data and the value added shown in Mondragon’s annual reports between 1991 and 2003. Comparing the value added per Mondragon employee, in the Mondragon Industrial Group cooperatives and in the manufacturing industry of twenty-seven European countries, Basterretxea concludes that one cannot justifiably continue to affirm significantly greater productivity at Mondragon when compared to capitalist enterprises, in line with Bradley and Gelb (1983), Thomas and Logan (1982), and all the authors that subsequently follow their work.

In any case, as Thomas and Logan (1982, 106) state, it is not possible to measure the efficiency of the Mondragon cooperative experience by simply looking at productivity or profitability indicators used in capitalist companies as a whole. According to these authors, the objectives of self-management companies such as the Mondragon cooperatives are much more complex than those of other companies, which means that any eval-

uation of efficiency should be done according to the group's endogenous objectives and rules.

Following this reasoning, much of the literature on Mondragon, as well as the Mondragon annual reports and the group's internal documentation, used indicators such as sales growth, investments, and employment as success factors.³ Employment creation, the group's own survival, and its growth are endogenous objectives of the corporation, while profitability and business competitiveness are seen more as necessary conditions for the ability to grow. Therefore, good results in these growth indicators and employment could justify overall rates of return that are not very high, due to the fact that they seek to reduce risks through the diversification of markets and business. Likewise, lower productivity rates (especially in time of crisis) are justified by the corporation's efforts to maintain and create jobs. In this regard, asked whether Mondragon is more or less profitable than the capitalist enterprises in its environment, Mondragon's President of the General Council, Jesús Catania, declared:

We are in so many sectors that it is difficult to make a comparison in standard terms, since there is no company equivalent to Mondragon in the Spanish state. Even so, one could say that, broadly speaking, we are within the average. You have to keep in mind that we have a very important objective and that is the creation of employment, and at times we maintain, circumstantially at least, some jobs that other companies with a more capitalist motive would do away with at once. And this is a factor that hurts us from a profitability standpoint, but that pleases us as being consistent with our reason for being (Jesús Catania, interviewed in Marcos 2003, 22).

Possible Sources of Competitive Advantage at Mondragon

The bibliography that seeks reasons for Mondragon's success is more extensive than the literature containing evidence of specific success. Hereafter, I will analyze the nine most-cited factors explaining Mondragon's competitive advantage:

3. See Bradley and Gelb (1983); Logan (1988); Thomas and Logan (1982); Lutz (1997); Albizu and Basterretxea (1998); and Arando et al. (2010).

People and Training

Cooperative members' dual condition of worker and owner—in other words, as members that participate in management, in the ownership, and in the company's results—make the human factor even more key in cooperative enterprises than in capitalist companies.

That dual condition of worker and owner, which does not exist in the most capitalist enterprises, constitutes a distinctive element that could generate sustainable competitive advantages resulting from this kind of participation. In this respect, scholars of the Mondragon experience as well as Dionisio Aranzadi (2003, 69) declare its workers to be at the core of the cooperative group. Mondragon's former president, Jesús Catania (2002, 16), asserted, "The essential and most natural strength of cooperativism lies in the people and their participation." Catania's predecessor in the Mondragon presidency, Antonio Cancelo, used similar terms to explain the cooperatives' success: "Cooperativism has its roots in the leadership of the people, which gives it an advantage to just be consistent in the business organization with this principle. In organizations in which the contribution of all is key, no other model has the initial advantages of the cooperatives" (Cancelo 2000, 16). According to Cancelo, workers' participation in cooperatives' management and decision-making facilitates their subsequent involvement in policy-making, as well as the quick implementation of new policies.

Given that many of Mondragon's industrial cooperatives do business in products and markets that face growing competition from countries with cheaper labor like China, the cooperative group is convinced that the only way to maintain and create jobs in its parent companies in the Basque Country is to manage the knowledge and innovative capacity of its people through their participation and involvement in the cooperatives. The group believes that there are competitive advantages to this participation, which it tries to fuel with appropriate tools and management structures. This participatory advantage is strengthened within Mondragon by the convergence of objectives between capital and labor, both concepts coinciding in the figure of the cooperative member:

The people of Mondragon are the only guarantee of the success of our cooperative project and of our enterprises. We rely on their commitment to participation and integration, since what is essential to Mondragon's socio-business model and at the same time its differentiating element, is the participation of its members in the capital, the results, and the man-

agement. . . . Participation allows the channeling of people's potential, using it for the common interest and enhancing satisfaction and a sense of ownership on the part of the people. . . . Participation of the members and the people who work with us, along with the convergence of the final objectives allows a greater permeability of entrepreneurial initiatives in the whole organization, which should constitute a permanent competitive advantage (MCC 2000a, 40).⁴

Believing in the cooperative member as a source of competitive advantage requires cultivating and nourishing that source, because capitalist society and the conventional educational institutions that surround the cooperative companies do not typically produce "cooperative people" or provide people with cooperative principles and values. This has been understood as such since the beginnings of the Mondragon group. Mondragon's founder, José María Arizmendiarreta, believed that "one is not born a cooperator, one becomes a cooperator through education and the practice of virtue," which is explained through the following metaphor: "People do not normally become co-operators spontaneously, they have to be taught—the soil may be fertile but it has to be cultivated" (Arizmendiarreta, in Morris 1992, 13).

Based on the belief that cooperative members can be sources of competitive advantage, that one is not born a co-operator, and that the capitalist society and its education system do not help "make co-operators," the Mondragon group has, since its origins, developed an education system that includes a university (Mondragon Unibertsitatea), two vocational schools or professional training centers, and a managerial and cooperative training center, among other institutions. These corporate training centers, along with the training in technology and in cooperative and corporate culture that they provide, are considered an important source of competitive advantage by several authors.⁵

4. This text appeared in an almost identical form in the *Compendio de Normas en Vigor del Congreso de Mondragón Corporación Cooperativa*, updated on February 11, 2005 (MCC 2005, 16, 17).

5. Ellerman (1984); Bradley and Gelb (1983); Asua (1988); Meek and Woodworth (1990); J.M Ormaechea (1991, 1995); F. Ormaetxea (1991); Arrieta and Ormaechea (1991); Thomas and Logan (1982); Leibar and Ormaechea (1991); Hoover (1992); Morris (1992); Cantón (1995); MCC (2000b); Agirre (2001); Chaves (2003); Aranzadi (2003); Basterretxea (2008); and Basterretxea and Albizu (2010, 2011).

Better Management, Better Managers, Self-management Tools

Many researchers who have analyzed the reasons for Mondragon's economic success point to the existence of better managers than those of its competitors and to the development of specific management tools for the cooperative group.⁶ Most of these studies stress that the Mondragon cooperatives have been pioneers and have been particularly successful at implementing advanced management practices, especially in quality-related practices. According to these authors, the culture of participation in decision-making and in the self-management of the cooperatives gives them competitive advantages in the application of quality tools, the adoption of organizational models, and the means of management associated with these quality tools.

Corporate and Cooperative Culture

The key role of cooperative culture did not escape the analysis of the corporation itself, which believes that "Mondragon's history would have been impossible without a way of being, of performing, of doing specific and differentiated things, that is, a self-culture" (MCC 2000a, 34).

Mondragon's ten basic principles are the best embodiment of this self-culture;⁷ principles that, according to the corporation, constitute "the cornerstone, the starting point" of the cooperative group's ideological construction (MCC 2000a, 15). According to Roy Morrison (1991), Smith (2001), and Gibson-Graham (2006), the Mondragon cooperatives have adhered to these principles since their origins, understanding this adhesion as an exogenous factor that involves distinctive economic management and that makes the cooperatives' adaptations subject to the market's changing conditions. The fact that Mondragon's cooperatives have proven themselves in successive market adjustments leads Smith (2001) to assert that the cooperatives have built competitive advantages on the basis of those ten basic principles.

The creation of a solid cooperative and corporate culture on which Mondragon's structure, organization, and policies rests is also empha-

6. Thomas and Logan (1982); Logan (1988); Whyte and Whyte (1988); Albizu and Basterretxea (1998); Cheney (1999); Bakaikoa et al. (1999); Clamp (2000, 2003); Smith (2001); Jakobsen (2001); Irizar (2005); Charterina, Albizu, and Landeta (2007); Basterretxea (2008); and Basterretxea and Albizu (2011).

7. 1. Open admission; 2. Democratic organization; 3. Sovereignty of labor; 4. Subordinate and practical nature of capital; 5. Participatory management; 6. Payment solidarity; 7. Intercooperation; 8. Social transformation; 9. Universality; and 10. Education.

sized as having contributed to a sociocultural homogeneity (Bradley and Gelb 1983; Ormaechea 1991; Meek and Woodworth 1990; Smith 2001), a homogeneity that can facilitate democratic decision-making within the cooperatives.

A large portion of the literature on Mondragon stresses the shared culture as the main glue that holds the cooperatives together inside a corporation with a “federal” or “inverted pyramid” organizational structure.

Mondragon is held together by a set of shared principles. This is reinforced with the provision of real services and other organizational safeguards. . . By [the inverted-pyramid nature of Mondragon] it was meant that while the official corporate chart of Mondragon might resemble that of an ordinary holding company, in reality all the authority was held by the individual co-ops, so that the apparent ‘base’ of the pyramid was really its (functional) apex. The Mondragon directors are a committee of the co-op directors; and any co-op that does not find that the Mondragon corporate offices are adding value to their operations may secede at any time (Smith 2001, 13, 46).

The freedom of each individual cooperative to leave the group means that the center has to somehow justify the added value to the cooperatives by means of its technical, educational, financial, and strategic services. Otherwise, the constituent companies might leave, as has been the case on occasion.⁸ The fact that the bulk of its cooperatives has not left Mondragon is a clear sign that the corporation’s incentives to add value are working (Smith 2001, 28) and that the shared mission, culture, and values among the Mondragon cooperatives are an effective unifying link.

Supporting Institutions (Caja Laboral, Training Centers, and Corporate R&D)

The Mondragon cooperative group has developed many support institutions throughout its history, such as a credit union (Caja Laboral), corporate training centers (like Mondragon Unibertsitate), fourteen corporate R&D centers (like Ikerlan and Ideko), and a voluntary insurance company (Lagun Aro).

Many researchers of the Mondragon phenomenon believe that these support institutions have bestowed important competitive advantages

8. During the 2008 General Meeting, members of the Ampo and Irizar cooperatives decided to leave the Mondragon Corporation.

on the cooperatives.⁹ In particular, these support institutions help to resolve some of the cooperatives' typical deficiencies by providing personnel familiar with cooperativism (corporate education centers), financial resources (Caja Laboral), insurance services (Lagun Aro), and research (Ikerlan, Ideko, and so on) to meet their needs.

Among all these support institutions, the literature emphasizes the credit union cooperative, Caja Laboral (created in 1959), as a key source of MCC's competitive advantage. The cooperatives often faced financial problems that greatly limited their growth, since neither members' contributions nor accessible external financing was enough to sustain investment projects that required large amounts of capital. Consequently, having a cooperative credit union has allowed the channeling of domestic savings into the cooperatives in need of financing under preferential conditions. In certain times of crisis, Caja Laboral has allowed financing with reduced or no interest rates for certain cooperatives experiencing difficulties (Gorroño 1988, 92) and has waived repayment in extreme cases (Gorroñoigoita 1988, 297). In the current crisis, which has been marked by strong credit recession, Caja Laboral has returned to being an important factor in financing the cooperatives. The corporation has also created other organizations that have joined Caja Laboral in this purpose.¹⁰

In sum, the credit union, as well as the training centers, and the corporate research centers, and the corporation's insurance company, not only contribute competitive advantages individually, but are also interconnected with the rest of the organizations. The "interrelationship of these support institutions" (Cantón 1995, 187) might constitute a competitive advantage base, and also function as a barrier to imitation.

Although a competitor might try to imitate one of Mondragon's four pillars (the financial, educational, social welfare, and R&D foundations), and invest in a similar way to that of the cooperative group, such investment

9. See Ellerman (1984); Asua (1988); Gorroño (1988); Gorroñoigoita (1988); Whyte and Whyte (1988); Gutiérrez Johnson and Whyte (1977); Thomas and Logan (1982); Leibar and Ormaechea (1991); Arrieta and Ormaechea (1991); Hoover (1992); Morris (1992); Ormaechea (1994, 1995, 1998); Cantón (1995); Cancelo (1997); Bakaikoa et al. (1999); Cheney (1999); Smith (2001); Chaves (2003); Aranzadi (2003); Bakaikoa et al. (2004); Basterretxea (2008); Iriziar and MacLeod (2008, 2010); and Basterretxea and Albizu (2010, 2011).

10. The Mondragon foundation allocates part of its central Inter-cooperation funds to financing cooperatives that have exhausted their debt capacity, contributing the resources needed to support a rollover through loans or capital increases.

would lead to worse results for the company attempting to copy the MCC system because it would not involve the other three cooperative pillars.

In their analysis on Mondragon and the possibility of reproducing a similar experience in the United States, Ana Gutiérrez Johnson and William F. Whyte (1977), warn that in addition to industrial cooperatives, the imitator would have to create teaching, banking, and research organizations to support each other. Begoña Asua (1988) and Basterretxea (2008) also arrive at similar conclusions.

Employment Policy and Job Flexibility

Various researchers of the Mondragon phenomenon stress that the cooperative group has an employment policy that gives it competitive advantages over conventional capitalist companies.¹¹ This employment policy is characterized by the use of flexible work schedules, a high flexibility in salaries, flexibility of job duties performed by the members of each cooperative, as well as the relocation of members from cooperatives in crisis to those cooperatives in need of manpower. Thanks to those measures, the Mondragon cooperatives have been able to overcome different economic crises by retaining more capital, enjoying a lower failure rate, and closing down less of their interests than their competitors.

Business Creation Know-How

Shortage conditions and the value of human resource as a source of competitive advantage are especially relevant when we speak of a human resource typology that is smaller than others—that of people who start businesses successfully (Penrose 1959; Lado and Wilson 1994; Mahoney and Michael 2004).

If there is a shortage of successful entrepreneurs, those entrepreneurs that start up businesses under the legal form of a cooperative will be even more scarce: “If one has the talent to organize a co-op, one could probably also organize a conventional firm, and become not only the manager, but the residual claimant on the net income of the firm as well. As a result,

11. See Bradley and Gelb (1983, 1987); Gorroño (1988); Logan (1988); Whyte and Whyte (1988); Hoover (1992); Morris (1992); Ormaechea (1994, 1998); Goienetxe (1996); Cancelo (1997); Albizu and Basterretxea (1998); Bakaikoa (1996); Bakaikoa et al. (1999); MCC (2000a, 2000b); Smith (2001); Clamp (2003); Basterretxea (2008); Arando et al (2010); and Basterretxea and Albizu (2010).

there is a severe incentive problem for co-op entrepreneurship” (Smith 2001, 27).

To cope with these limitations, Mondragon has created different organizations and divisions that boost cooperative entrepreneurship. In its early days, this impetus came from the corporate training centers. In the 1970s and 1980s, backing for the formation of new cooperatives rested in the business division of the Caja Laboral credit union. Presently, the creation of new businesses is boosted by different departments and companies within the corporation, such as the business incubators Saiolan and Azaro, or the promotions department of Mondragon’s new businesses. Throughout this process, Mondragon generates valuable knowledge of cooperative business creation, according to authors like David P. Ellerman (1984); José M^a Ormaechea (1998); Gurli Jakobsen (2001); Isabel Uribe and Iñazio Irizar (2005); and Basterretxea (2008).

Inter-cooperation

As Smith (2001) contends, even though a cooperative overcomes various entry barriers and establishes itself in a certain sector, it is still possible that it might not survive. This is not because of intrinsic inefficiencies, but simply because of the absence of other cooperatives to work with in its sector or area. Using the metaphor “a single rose may not bloom alone: it may need to be part of an ecosystem in which other roses are present, and in which supporting actors and structures (e.g. bees, soil conditions, rainfall) are present,” Smith (2001, 29) suggests that co-ops may only survive if there are other co-ops to cooperate with in their region, in their sector, or in their supply chain.

In Mondragon, inter-cooperation and the solidarity between cooperatives constitute the rank of basic principle. According to the Mondragon inter-cooperation principle, individual cooperatives must work in a joint and controlled manner. This results in the establishment of a homogenous social and occupational system, the shared restructuring of profits, regulation of the transference of worker members, and the search for potential synergies.

Until 1991, the restructuring of profits was done at the level of territorial groupings, thus cooperatives with profits transferred part of these gains to other co-ops with losses in their region. From 1991 to the present, this profit restructuring has been performed at the level of the corporation’s sectoral divisions.

Together with the profit restructuring in each division, Mondragon also restructures profits at the corporate level through its central inter-cooperation fund (CIF). This fund is annually endowed by the cooperatives with an outlay equivalent to 10 percent of the gross surpluses from the previous financial year (20 percent in the case of Caja Laboral). Part of the CIF resources are intended for the funding of cooperatives that have exhausted their debt capacity, contributing the resources needed to support their rollover plan through guarantees, loans, or compensation of losses. In 2003, a corporate solidarity fund was also created to supplement the loss compensation system of the cooperatives in the industrial area.

Various authors underscore this profit restructuring inter-cooperation among cooperatives with both gains and losses as one of the pillars of survival and success within the Mondragon experience.¹²

Capitalization of Profits

One key to Mondragon's success, according to various analyses,¹³ is its systematic reinvestment of the cooperatives' profits. Part of these profits come from the cooperatives as interest on capital and monetized dividends.¹⁴ However, the bulk of earnings are used to capitalize the cooperatives in the form of capitalized returns on investment and reserve funds.¹⁵ This continuous practice of profit capitalization throughout Mondragon's history has permitted a strengthening of the cooperatives' own resources and led to the sustained growth of the cooperatives. Its own resources have also been strengthened in times of crisis by means of capital increases (through the capitalization of overtime, capitalization of extra payments, and so forth), helping to improve the response of the Mondragon cooperatives to successive economic crises.

12. See Gorroño (1988); Gorroñoigoita (1988); Cantón (1995); Canelo (1997); Ormaechea (1998); Bakaikoa et al. (1999); Agirre (2001); Errasti et al. (2003); Chaves (2003); Aranzadi (2003); and Arando et al. (2010).

13. Bradley and Gelb (1983); Gorroño (1988); Gorroñoigoita (1988, 1995); MCC (2000a); Irizar and MacLeod (2010).

14. A full 23.6 percent of the 2007 economic performance was distributed among the cooperative members in this way.

15. Of the 2007 earnings, 67.6 percent was used to capitalize the cooperatives and the corporation.

Structure and Control Systems

Several authors point to the Mondragon Corporation's organizational structure and cooperative control systems in order to explain the success of this cooperative experience.

Shann Turnbull (1985) compares the custom-designed control and incentive architecture of Mondragon with Japanese Keiretsus. He considers the control architecture within and among Mondragon co-ops as far more complex than that of ordinary firms. And in his opinion, this complexity creates operational and competitive advantages.

According to Smith (2001), the co-op is designed to be a small organization, which facilitates democratic decision-making. By grouping individual co-ops within a larger corporate structure, Mondragon co-ops still maintain the advantages of participation, while they take more systematic advantage of economies of scale and scope.

Christina A. Clamp (2003, 26–27) also underscores the fact that each cooperative remains self-sufficient and retains its own autonomy in several administrative aspects, but at the same time, the corporation gives individual cooperatives much more visibility in global markets, enhancing their ability to take advantage of market opportunities, exploiting the synergistic potential of the cooperatives, and enabling them to be an aggressive and able competitor.

Conclusions

The consolidated findings of the studies that emphasize the existence of competitive advantages in the Mondragon group prove the existence of continuing evidence of a greater international competitiveness from the Mondragon cooperatives than from capitalist companies in their geographical environment, a higher growth in sales and employment, greater gains in quality, less failure rates, better response to crises, and a greater innovation capacity. That said, there are few studies and little evidence to demonstrate that cooperatives are more productive, and what studies there are date back to the 1970s and the 1980s. Much of the literature on Mondragon continues to validate this premise of greater productivity without providing recent empirical evidence. Given the academic interest in the Mondragon experience, it would be interesting to see more complete and recent comparative analyses to see whether the Mondragon cooperatives have been, and are currently, more or less productive than competing public limited companies operating in their sectors.

Here, I have also summarized the explanations given by scholarly literature for Mondragon's achievements. A large part of Mondragon's sources of competitive advantage come from its human resource policies. Therefore, among the most emphasized sources of competitive advantage, it is the people who shape Mondragon and its training, the existence of better management and management tools, the corporate and cooperative culture, and the group's employment policy and labor flexibility. Along with these reasons, another important set of explanations for Mondragon's success focuses on its organizational structure, on the corporate organizations that support the cooperatives, and on the inter-cooperation tools between cooperatives.

I believe that this summary of the literature analyzing the success of the Mondragon experience can be a starting and a focus point for those scholars who wish to know and continue studying this experience in more depth.

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