Documents about MONDRAGON

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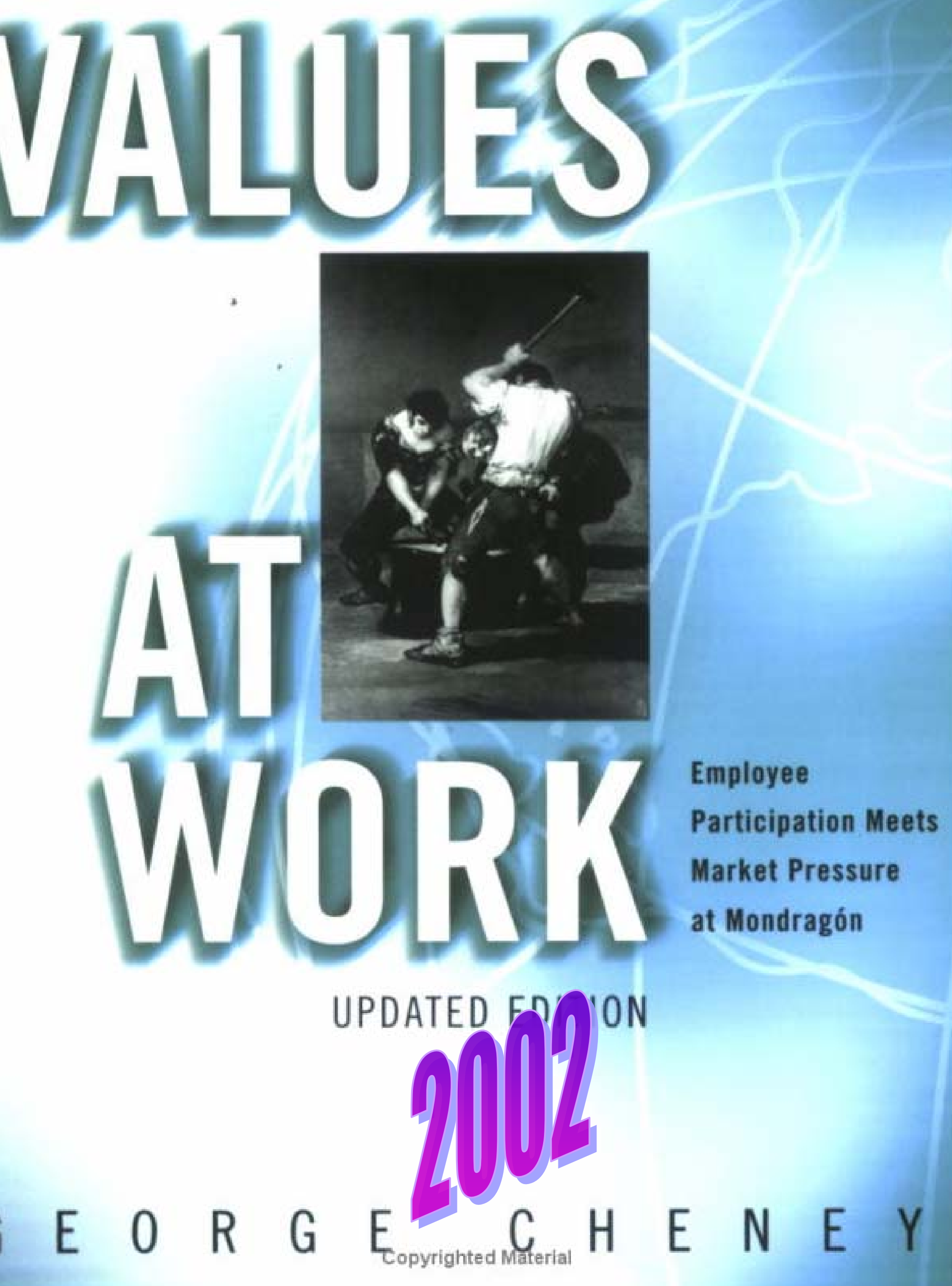
VALUES
AT
WORK
Employee
Participation Meets
Market Pressure
at Mondragón
UPDATED EDITION
2002
EORGE CHENEY
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CONTENTS

Tensions over Democratic Values in Today's Business Market

We obviously do not yet have the conceptual tools for developing an integrated analytical framework that would allow the investigation of participation in its broadest sense.

—H. Peter Dachler and Bernhard Wilpert, "Conceptual Dimensions and Boundaries of Participation in Organizations: A Critical Evaluation," 1978

The notion of the customer is fundamental to current management paradigms. . . . departments now behave as if they were actors in a market, workers treat each other as if they were customers, and customers are treated as if they were managers.

—Paul du Gay and Graeme Salaman, "The Cult(ure) of the Customer," 1992

The New Old Workplace

The twentieth century has witnessed many trends to make management more effective, to improve work processes, and to transform businesses and other institutions into productive and efficient enterprises. Scientific Management, the Human Relations Approach, Systems Theory, Organizational Culture Management, and Team-based Restructuring of Work Processes are just a few of the trends that have been heralded in management texts and that have given birth to whole bodies of social scientific research. The chief proponents of such approaches to work, especially since the advent of the Human Relations Movement in the early 1930s, have "claimed that there is no conflict between the pursuits of productivity, efficiency, and competitiveness on the one hand and the 'humanization' of work on the other" (Rose 1990: 56). This assumption, underlying many programs to engage employees' job commitment and identification with the organization, has led to the insistence that workers' interests, goals, and values are integral with the financial success and growth of the organization. Within this framework of understanding, broad slogans with positive value connotations have served for both the sincere and the less socially inspired leaders of business. One Sears executive observed more than forty years ago that such slogans as "human relations" could be so compelling as to divert criticism by labor unions and other potential critics (Worthy 1957). "Efficiency," "quality," "customer satisfaction," and "employee empowerment" are a few of today's organizational mantras.

"Employee empowerment" for one, is a double-edged sword. The employee with increased responsibility for determining his or her own work activities may also be an employee with much more than one job to do. Observers of California's New United Motors Manufacturing, Inc. (NUMMI) plant, a celebrated joint venture between General Motors and Toyota, have reached differing conclusions about the merits of new programs of teamwork and employee participation (compare Adler and Cole 1993; Berggren 1994; Wilms 1996). Though employees' involvement in the work process has grown, so has their stress. Laborers at the NUMMI plant are required to make suggestions regularly for the improvement of production, engage frequently in problem-solving meetings, and immediately signal management about the slightest problem with production. One researcher reports high levels of job satisfaction under this form of "democratic Taylorism" (Adler 1992), while another describes the system as "management by stress" (Parker 1993). All observers agree that work has greatly intensified under the new system, but they differ in their assessments of the physical, psychological, and social impacts on workers.

In a number of popular Dilbert cartoons, created by a former employee of a Silicon Valley high-tech firm, subordinates raise sharp questions every time the boss announces a new program of teamwork or empowerment. "Employee empowerment," says Dilbert, effectively means that "you're the monarch of unimportant decisions" (Adams 1995). The brief but potent General Motors strike in September 1994, beginning in Detroit and spreading to other cities, represented one of the first widely publicized objections in the United States to the norms of the new workplace: increased responsibility,

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1998, after the company, long known for its commitment to employees, restructured its work processes in terms of teams (King 1998). Self-directed or semiautonomous work teams, now the rage worldwide as a means of greater productivity, can be downright oppressive where the demands on employees become overwhelming and rigid and where surveillance of their labor remains a chief means of securing compliance. In these respects the more organizations seem to change, the more control over work processes seems the same (Cheney et al. 1998; Sewell 1998). Yet "what *is* different about [today's] lean methods is the *continuous search for marginal improvements* in costs by constantly stressing and readjusting the production system and, above all, the labor process" (Moody 1997: 87, emphasis mine).

A multiplant strike at General Motors in the summer of 1998 effectively paralyzed the corporation's North American operations. The event was one of the most important strikes to date over the issue of economic globalization. The conflict centered on GM's plans to further downsize its work force and heighten production efficiency, not because profits were down but rather in response to a new efficiency campaign by Ford and Chrysler's merger with Daimler-Benz. The confrontation was the sharpest in recent years between the United Auto Workers, which had by then been losing membership for two decades, and the giant auto maker. The UAW drew "a line in the sand" over what it saw as unnecessary cutbacks in personnel in the United States, Canada, and Mexico; the transfer of jobs to cheaper labor markets abroad; and undue pressures on the employees remaining at North American facilities (G. White 1998). In the end GM agreed to several of the union's terms, including a promise not to make strategic decisions completely outside the context of worker representation.

It is not surprising, then, that some observers these days speak of "the end of company loyalty" (Bennett 1990) or "getting not just a job but also a life" (Edmondson 1991). Moreover, Charles Heckscher, a labor and industrial relations researcher, concludes that faith in efforts at employee empowerment is waning because many organizations that have implemented such programs are neither more democratic nor more effective: they do business as usual, except that they do it with fewer employees and perhaps with fewer hierarchical levels (as cited in Yates 1996; see also K. Smith 1995). Chris Argyris, writer on human resources management, is even more specific in his critique of typical empowerment programs in suggesting that they tend to involve heavy monitoring of employees' behaviors at work and relatively few opportunities for creativity on the job (1998). Finally, social critic Richard Sennett charges that the type of teamwork typically promoted today lacks depth and vision: "it is the group practice of demeaning superficiality" (1998: 99).

Swedish organizational analyst Christian Berggren (1992) urges us to look carefully at what exactly is meant by "teamwork" and "participation." A work team in Canada may not be the same thing as one in Japan or Sweden or Israel. In fact, some applications of "team" or "teamwork" are not very democratic at all, involving undue constraints on the individual (though the control may be more horizontal or peer-based than vertical or top-down). In the name of team-based organization, some corporations simply try to engineer a new kind of superloyalty to the firm via the work group, giving little attention to increased worker freedoms or initiatives. What, precisely, is the role of the employee in newly reorganized work systems? Also, how is the description or "framing" of a new program likely to influence its specific application, and how are parameters for meaning set?

Business, the Market, and People

Multinational corporate capitalism is coming under increased criticism, even as the Dow Jones Industrial Average surpasses the 11,000 mark. Charles Derber (1998) questions the huge role now ceded to the corporation and finds the corporate concentration of power to be excessive. Holly Sklar (1995) attacks the growing disparity between the rich and the poor in the United States and other industrialized nations. Kim Moody (1997) charges that under the banner of globalization, workers in many countries are being subjected to harsh working conditions and are treated as disposable. William Greider (1997a) and Robert Kuttner (1997) argue that economic competition is now commonly used as an excuse for industries to ignore ethical concerns (as captured by the phrase, "just business"). Richard Sennett (1998) charts the erosion of individual moral character in an age when organizations devalue stability, loyalty, and ongoing relationships. The Hungarian American billionaire George Soros (1997) and former British political adviser John Gray (1998) question whether the rush to "free trade" worldwide now needs to be checked by institutions other than capital and values other than profit and power. And David Korten (1998) calls for measures such as grassroots economic empowerment and reform of industrial policy to humanize the economy.

We have created the business culture in which we live, even though we commonly describe major corporations and the sovereign market as if they were something simply "out there," well beyond our human hands (McMillan and Cheney 1996). "Insofar as there is a dominant belief in our society today, it is a belief in the magic of the marketplace" (Soros 1997: 48). Highly restrictive notions of the bottom line have encouraged us to forget about or overlook one of the basic reasons we do business in the first place—to improve the human condition (see Estes 1996). As David Korten insists, "Neither a society nor a market economy can function effectively without a moral foundation" (1995: 90), and the market in its current form cannot fully provide for that. Adam Smith's treatise on free enterprise ([1776] 1986) is commonly invoked today to support unbridled corporate maneuvering, though he himself envisioned a private sector of tightly interconnected organizations balanced by compassion as well as governed by self-interest (see Werhane 1991).

The everyday concepts and language we use in describing business are revealing. We discuss organizations and bureaucracies as if *they* were the social agents and not people and we speak of organizational efficiency almost as if people were neither involved in making such calculations nor affected by them. High unemployment is sometimes framed as a good thing by financial analysts who myopically focus on single indicators of market performance, seemingly oblivious to the people behind the numbers (see, e.g., Holloway 1998). Productivity is touted as the answer to all of our economic and social limitations and as a value in itself (Cheney and Frenette 1993). In the popular book *Corporate Renaissance*, Cross, Feather, and Lynch (1994) spend most of their time describing an organization that essentially runs like a machine and must get "back on track." Despite the metaphor of (human) renaissance in the title, most of the book deals with topics such as "administering the machine" and "overcoming resistance to change," and is based on the assumption that the machine/organization moves everything and everyone in its path. Even when the authors discuss topics related to human resources, individual persons play very minor roles in this show. The view of organizational change as sweeping and inevitable (like an ocean's tide or the weather) has come to be common currency today, even for organizations that are working hard to anticipate changes in their market environment (Christensen 1996).

In overemphasizing the dictates of the market, we seem to forget our own roles in shaping organizations, maintaining them, and, occasionally, transforming them into bastions of excellence, creativity, trust, and joy. More important, when we talk in terms of inevitability in the marketplace (see Aune 1996), we surrender our capacities as social agents to "make a difference" and alter the system we describe (Polanyi [1944] 1957). We seem to forget that a market can best be defined as a network of people, or more accurately today, as a network of organizations—"self-producing social structures among specific cliques of firms who evolve roles from observations of each others' behavior" (H. White 1981: 518). Institutions imitate one another to a far greater extent than is often realized (Meyer and Rowan 1977). We need to demystify the market by highlighting the people, companies, and industries behind the decisions that make the market what it is (Daly and Cobb 1994).

Unusual companies such as Mondragón, Ben and Jerry's Ice Cream of Vermont, California's Patagonia Inc., the London-based Body Shop, the Grameen (Rural People's) Bank of Bangladesh, or New Zealand's Hubbard Foods encourage us to ponder what is possible. None of these organizations is perfect, of course. But because a social ideal is unachievable in its entirety doesn't mean that it cannot serve as an inspiring point of reference in our step-by-step realization of important values and goals. We can walk down a path even though we may never quite arrive at our intended destination.

Getting the Organizations We Ask for

In chronicling the rise of the modern organization, sociologist James Coleman (1974) explains that the original corporation in the late Middle Ages, such as a guild of cobblers, was designed to give craftsmen a voice in the market and to enhance their individual efficacy and power. A group of craftsmen, by pooling resources and knowledge, could gain leverage in an economic and political environment dominated by the medieval church and the feudal state. It is not overly romantic to observe that the emergence of capitalism was, in this respect, democratic. The early guilds enhanced the economic

Winner of the International Communication Association's Best Book Award for 1999–2001

"In this thoughtful, well-written book, Cheney eschews simplistic answers in favor of complex, thoughtful analysis. He raises important questions about the ability of socially conscious companies to operate in a world economy dominated by an ethos of unbridled competition. Rather than adopt a 'good-guys' versus 'bad-guys' approach, the author leaves it to the reader to weigh the long-term consequences of unchecked economic development."—*Choice*

"*Values at Work* is a landmark contribution to our knowledge about workplace democracy. The clarity of writing, the richness of data, and the careful analysis make this book a must-read for anyone interested in democratic participation in an organizational setting."—*Management Communication Quarterly*

"Critically examines how one business . . . [deals] with external pressures to compete in the global market while working to revive its long-held values of workplace democracy within the new configuration of the customer-centered or market-driven firm."—*Journal of Economic Literature*

Values at Work is an analysis of organizational dynamics with wide-ranging implications in an age of market globalization. It looks at the challenges businesses face to maintain people-oriented work systems while remaining successful in the larger economy. George Cheney revisits the famous Mondragón worker-owned-and-governed cooperatives in the Basque Country of Spain to examine how that collection of innovative and democratic businesses responds to the broad trend of marketization.

GEORGE CHENEY is Professor in the Department of Communication at the University of Utah and Adjunct Professor in the Department of Management Communication at the University of Waikato, New Zealand.

ILR/Cornell Paperbacks
Cornell University Press
www.cornellpress.cornell.edu

ISBN 0-8014-8816-8
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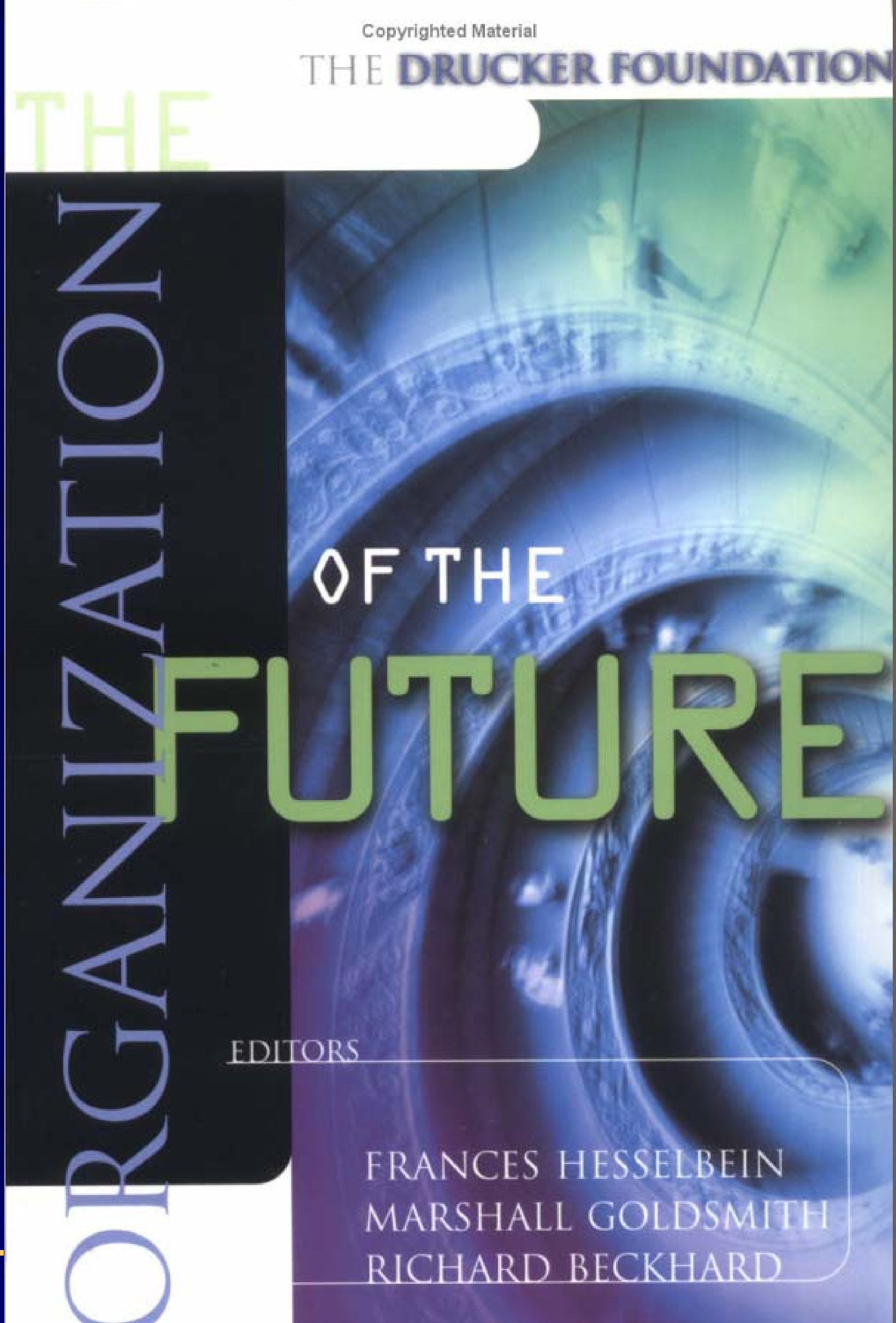
9 780801 488160



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 its 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 José Maria Arizmendiarreta (I will refer to him as Don José from here on) and five young men. Don José 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 José 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 businesses someday. As the school grew, so too did the unemployment in the region, reaching 20 percent in the early 1950s. Don José had read the papal edict that said that 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 ethics 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 young men 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 José 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, however, 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 businesses 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 has 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 José 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 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

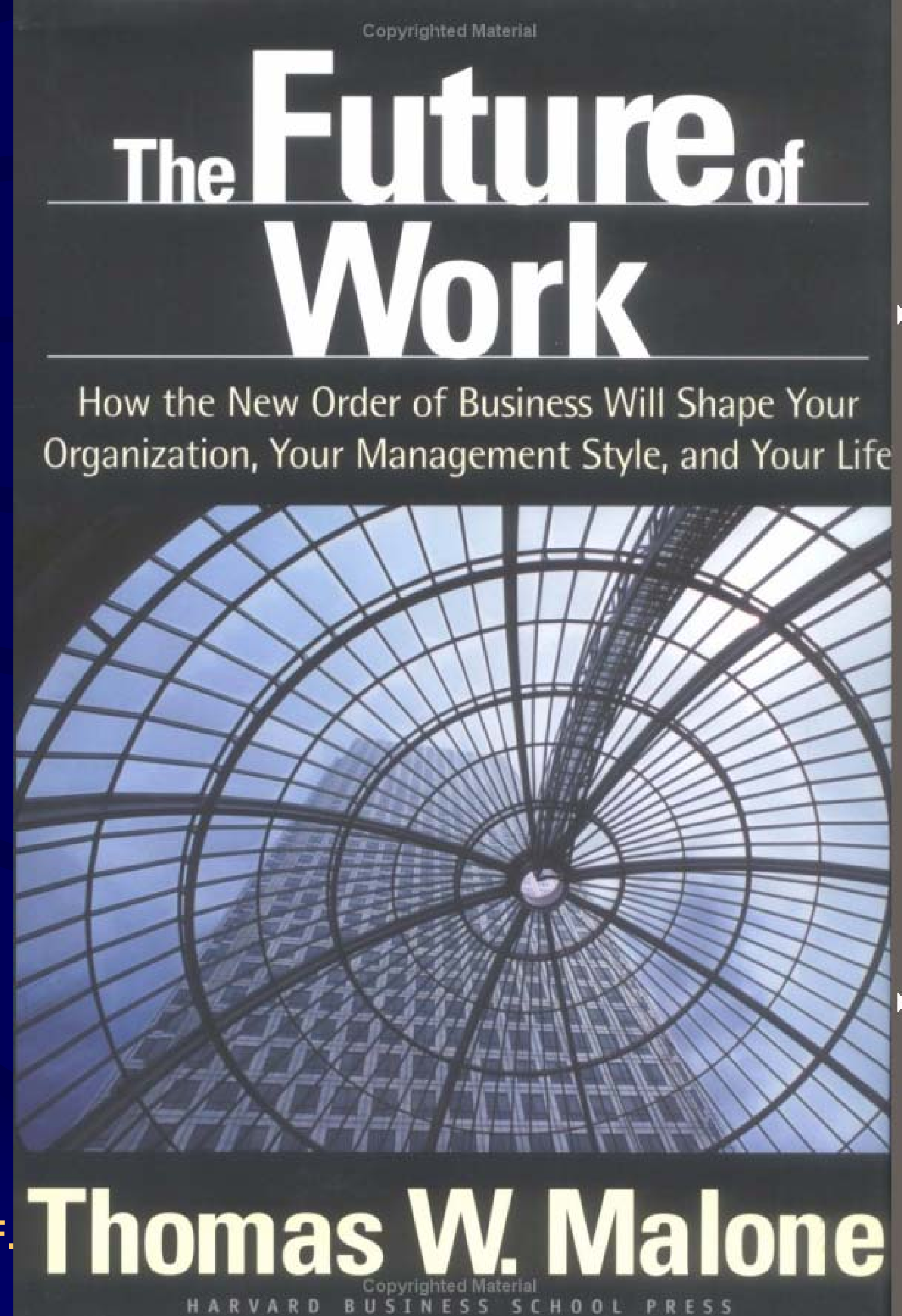
The fifth and last principle centers on an equitable retirement plan. The Mondragon Cooperative Complex self-funds and fully funds its retirement package. Workers contribute 32 percent of their earnings and receive 60 percent of their final salary. The cooperative also paid for all workers' health care 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.



Mondragon Cooperative Corporation

One of the most dramatic examples of democracy in business today can be found near the town of Mondragon in the Basque region of Spain, where a remarkable group of more than 150 companies forms the Mondragon Cooperative Corporation (MCC). Many of the member companies are in various manufacturing industries—auto parts, household goods, buses, industrial equipment, and machine tools—but the corporation also includes a bank, a supermarket chain, and a management consulting firm. In total, MCC encompasses about 60,000 employees and in 2001 had revenues of about $8 billion (excluding the bank), making it the seventh largest company in Spain.[16]

Decision-Making Structure

Each of the companies in the Mondragon group is itself a worker-owned cooperative. Almost all employees who have been with one of these cooperatives for more than a few years are "members" of the cooperative. As part owners, the employees of each company are the ultimate decision makers. In other words, instead of having power and authority come down from the top of the hierarchy, it comes up from the bottom. As in most democratic governments, however, the members usually exercise their authority through elected representatives.

The most important of these representatives are the members of the governing councils of the different cooperatives. The councils, which are typically made up of seven to ten employees elected for rotating four-year terms, act as a kind of board of directors for each cooperative. The council hires and fires the cooperative's managing director (equivalent to a CEO), approves the distribution of profits, and votes on other major policy decisions.[17] In addition to electing representatives to the governing council, employees are also entitled to attend twice-yearly general assemblies in which major issues facing the company are discussed and, sometimes, voted on.

The 150 cooperatives are grouped into twenty-two industry sectors, which in turn are grouped into nine divisions. These nine divisions, together with some corporate-level staff groups, make up the MCC.

Each industry sector has its own governing council, managing director, and general assemblies, as does the MCC as a whole. The corporate-level version of the governing council (called the standing committee) elects the president of the MCC and monitors the performance of the senior management team.

In this bottom-up structure, the overall corporation doesn't own its "subsidiary" companies. Just the opposite is true: The individual cooperatives own the corporation. The job of the corporate center is to provide services to the individual cooperatives—the member companies are, in essence, its customers. Any cooperative can leave the MCC if it decides it is no longer receiving adequate value from the corporate managers.

Financial Structure

The unusual decision-making structure of MCC is complemented by an equally unusual financial structure. To become a member-owner of a cooperative, an employee must make an initial capital contribution, equal to approximately half an average annual salary. Typically, the cooperative loans an employee some or all of this amount. Over time, the employee's capital account grows in two primary ways. First, interest accrues on the capital contribution. Second, the employee gets a share (proportional to his or her salary) of the company's profits each year. The money in a capital account cannot actually be used, however, until the employee retires or quits. Instead, it is used by the company as a reserve fund and a source of investment capital. In fact, in years when the cooperative has a loss rather than a profit, the capital accounts decrease. The cooperatives also have rules requiring them to allocate certain proportions of their profits, before any distribution to employees. These funds are allocated to build up their own reserve funds, to share with the other cooperatives and the overall corporation, and to support social and educational activities.

Together, these conservative financial policies help the cooperatives achieve one of their main nonfinancial goals: stable, long-term employment for their members. Over their nearly fifty-year history, the Mondragon companies have weathered significant economic downturns without, for the most part, reducing overall employment. Even when individual cooperatives have gone out of business or had to lay people off, their employees have usually been reassigned to other co-operatives within MCC.

Another of the Mondragon financial policies promotes MCC's goal of creating an egalitarian, cooperative community. Unlike many large companies, which pay their CEOs as much as five hundred times more than what their lowest-paid workers receive, MCC limits the ratio of the salary of the highest-paid worker to that of the lowest-paid to no more than six.[18] In general, this means that lower-level workers are paid more than what they would receive in comparable jobs in other companies, while senior managers receive somewhat less. In my discussions with the people at MCC, however, I got the impression that most employees do not consider this leveling-out of senior manager compensation a major factor. When profit-sharing contributions are taken into account, the shortfalls for senior managers are usually not very large. Furthermore, management jobs at MCC appear to be regarded as high-status positions in the Basque community.

Lessons of Mondragon

Employee-owned companies are not unusual. Many professional services partnerships have been owned by (some of) their employees for decades. And even at some large corporations, like United Parcel Service (UPS), Publix Supermarkets, and United Airlines, the majority of stock is in the hands of the rank and file.[19] All such companies have a potential advantage in attracting and motivating their employees.

But MCC goes much further. First, about 80 percent of the workers in most Mondragon companies are members (and thus owners) of the cooperative—a far higher percentage than in most professional services partnerships. Second, each member of a Mondragon cooperative has only one vote in company decisions; votes are not proportional to the number of shares the person owns or the size of his or her capital account. Perhaps most important, MCC has developed a complex hierarchical structure for organizing large numbers of people and resources, with separate but interlinked representative democracies operating at many levels.

When there is just one level of representative democracy—for example, when employees collectively elect the board of directors for a whole corporation—the decision-making power of individual employees

is diluted and may have little motivational effect. But when people can actively participate as decision makers in groups small enough to matter to them (most Mondragon cooperatives have fewer than 1,500 or 2,000 members), the benefits of democratic decision making are greatly amplified.

MCC shows that a large industrial company can be organized not primarily to maximize financial returns for its investors, but to achieve a range of financial and nonfinancial goals that are important to its members. For MCC, the goals include employment stability, regional economic development, and social responsibility.

Would such a structure work in other companies? Certainly, the Basque region's distinctive history and social and cultural environment have contributed to the success of MCC. But worker-owned and democratically controlled companies are also flourishing in other settings. The MCC example reveals that this basic idea can be taken to a new level of complexity, with representative democracies at many different hierarchical levels.

According to the MCC managers with whom I talked, a democratic structure makes management harder in some ways and easier in others. Management is harder because, on top of all the usual skills managers need, you also need an additional set of political and interpersonal skills to manage people who are, in a certain sense, your boss. But management is also easier because all the members of the organization are also its owners—they are each at the center of the organization. Everyone thus has a strong financial and psychological motivation to help the company be as successful as possible—to work hard, to always look for ways to do things better, and to share information that can help the company improve. In many situations, as any manager will tell you, that kind of employee motivation makes the difference between success and failure.

A Radically Democratic Hierarchy

How far could this notion of democracy in business go? In the spirit of stimulating your thinking, let's imagine how a new kind of organization—a radically democratic hierarchy—might work. This scenario is inspired by a Web posting by David Wooley, one of the pioneers of computer conferencing. It also draws on the Mondragon example and the work of the MIT Initiative on Inventing the Organizations of the 21st Century.[20]

Decision Structure

Like the Mondragon cooperatives, this new organization uses a conventional-looking hierarchy to collect information and make decisions and places the source of power at the bottom of the hierarchy rather than the top. But instead of having democratically elected representatives at only three levels—cooperative, industry sector, corporation—every hierarchical level is its own direct democracy. That is, at each level, the members of a group elect their own manager, who also represents them at the next level up. Group members can delegate some or all of their decisions to their manager, but they retain the right to overrule or replace the manager at any time.

Rather than establishing strict rules for representative democracy, as at MCC, each group chooses how to make its own decisions, with a majority vote ultimately deciding any question that can't be resolved by consensus or some other method. The groups are also free to add or remove members as they see fit. In higher-level groups, the votes each manager controls are proportional to the number of people he or she represents. Thus, managers representing large groups have more influence than those representing small ones, and the total number of votes at each level is equal to the number of people represented at that level. In principle, the members of any lower-level group could exercise their voting rights directly as individuals in higher-level groups. In practice, however, most people would probably want to delegate this right to their elected representatives.[21]

Approval Voting

One particularly interesting way for the groups to elect their representatives is through *approval voting*. In approval voting, you can vote for as many candidates as you want. If, for example, you really don't care who represents your group, you could vote for everyone in the group. Or if you felt that any of three people were acceptable, you could vote for all three. The winning candidate is the one with the most approval

votes. (Any winning candidate who didn't want the job could, of course, decline, and the candidate with the next highest number of approval votes would then be eligible.)

In principle, approval voting can be continuous; that is, people can change their votes at any time. Whenever the approval rating of the current manager falls below that of someone else in the group, then the other person is given the chance to take over. In practice, however, it's probably desirable to introduce some delays in this process in order to avoid constant disruption—the current manager's approval ratings might have to stay down for six months or a year, say, before a new manager takes over. While all this voting could take place with face-to-face meetings and paper ballots, it all becomes much easier and more feasible when done online or with other electronic tools.

Money Flow

In order to be more than just a collection of independent businesses, the overall organization of this radically democratic hierarchy has the authority to redistribute income received by any of its parts. For instance, the top-level management group (representing everyone in the organization) might decide to move money from mature cash-cow products to promising new ones.

In general, this top-level group (let's call it the executive committee) will simply divide the money among its constituent parts, which will, in turn, divide it again and again all the way down to the lowest-level groups in the organization. The executive committee might, for example, redistribute money to the three different product divisions in the company (let's call them A, B, and C) as well as to several cross-product functions (e.g., sales, finance, and legal). The executive committee will also pay any of its direct expenses not attributable to lower-level groups (dividends, interest, taxes, rent, salaries for executive assistants, consultants' fees, etc.).

To maintain the bottom-up incentives in this organization, most groups will want to determine their own managers' compensation directly rather than having it determined by the higher-level group. For instance, the executive committee determines how much money goes to the sales group overall, but the committee does not determine the specific salary of the head of sales. Instead, the sales group allocates its own manager's salary out of the overall amount it receives. In this way, managers will be strongly motivated to keep the people they represent happy—not just to keep their jobs, but to influence the size of their paycheck.

Determining Compensation

One particularly interesting issue is how group members decide one another's compensation. Some groups may vote on their manager's compensation and then let the manager decide everyone else's pay. Another, more interesting possibility is to let each person in the group assign a percentage of the total compensation budget to all the others. The average of these numbers then determines each person's actual compensation. Some groups may choose to make the votes and the final compensation numbers public; others may keep them secret. The same basic procedure can also be used in higher-level groups whose members need to allocate pools of money to the budgets of the lower-level groups they represent.

The energy company AES has tested a somewhat similar system that sets salaries through peer review. In the experiment, each person sent a proposed salary for himself or herself to everyone else in the group. In a meeting, the entire group revised the individual salaries until they added up to the group's total salary budget. In one case, most people's initial proposals were quite similar, but one man's was way out of line. After about three days of talks, he noticed that the difference between the total of all the proposed salaries and the salary budget was almost equal to the amount his salary was out of range. So he lowered his proposal, and the problem was solved.[22]

Reorganizing and Laying Off People

What happens when a group believes that it needs to reorganize a component group or even lay off people? These decisions are made just like all the others. If the majority of the representatives of a large group decides that part of the group should be reorganized or downsized, that is what happens. Would a large group make such a decision

casually? Certainly not. Since the whole management structure represents the interests of its workers, the organization would almost always be reluctant to eject some of its own members. In some cases, though, the good of the whole group might require such a move.

Stockholders

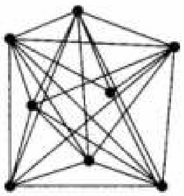
The most consistent way to think about stockholders in this organization is as another group that reports directly to the executive committee. Like any other group, the stockholders provide something of value (investment capital) and, in return, receive compensation (dividends) and voting rights. There are two important differences, however, between the stockholder group and all other groups. First, the financial compensation that stockholders receive may be contractually specified in advance rather than determined periodically by vote of the top group. For example, stockholders might automatically receive a fixed percentage of earnings every year. Second, each individual stockholder does not necessarily receive one vote (as each employee does). Instead, the overall number of votes held by stockholders can be negotiated between the management (representing all the employees) and the stockholders, and then each individual stockholder receives a share of these votes, depending on the amount of stock owned.

A key question is whether the stockholders, collectively, have more than 50 percent of the votes in the top group. If they do, then they could essentially overrule any decisions made by the employees and management. In this case, the whole company becomes a more conventional kind of organization, with ultimate power flowing from the top down. More interesting, therefore, is the situation in which all the stockholders together have less than 50 percent of the votes in the top group. In this case, the stockholders would receive financial compensation and have a voice in running the company, but they would not have the ultimate power that we usually associate with ownership.

Would any stockholders be willing to invest on these terms? It certainly seems possible. Many Wall Street analysts, for example, considered the AES management philosophy (of giving lots of decision-making power to low-level employees) a significant risk factor for the company. But AES turned in stellar investment returns for most of the years since it went public in 1991.[23]

Democracies: Definition

Communication Structure



How Are Decisions Made?

Voting (majority, two-thirds majority, consensus, etc.)

Scope of Decision Making

You must abide by any decision made by a group to which you belong.

Incentives

Vote for what you think is best (either for the group or for you).

The new organizational structure described here goes much further than even AES and Mondragon do in giving power to employees. It genuinely turns the traditional power structure upside down. If this approach unleashes the talents of its people as effectively as it might, then many investors would be eager to have a piece of the action—whether they have ultimate control or not!

Lessons About Democracies

As summarized in the boxes, democracies allow anyone to share information with anyone else, but require everyone to obey the decisions made by the group, whether they agree with those decisions or not. Democracies are, therefore, a kind of intermediate structure between controlled hierarchies and open markets.

Since people in democracies have a say in all the decisions that affect them, they generally have a greater sense of autonomy (and thus creativity and motivation) than in hierarchies. But since the members of a

Wikipedia Results

- ***Arrasate** or **Mondragón** (Basque and Spanish official names, Mondragoe is an unofficial Basque name) - is a town and municipality in Gipuzkoa province, Basque Country, Spain. There are about 25000 inhabitants.*
- *It is known mainly as the place of origin of the Mondragón Cooperative Corporation (MCC), the world's largest worker cooperative, whose foundation was inspired in the 1940s by Father José María Arizmendiarrieta. In 2002 the MCC contributed 3.7% towards the total GDP of the Basque Country and 7.6% to the industrial GDP. The valley of the High Deba where it is located enjoyed a high level of employment in the 1980s while the rest of the Basque industrial areas suffered from the steel crisis.*