

# The Management Page

In contrast to the limited success of worker co-operatives in the U.K., the Basque area of Spain has seen a growing number of such organisations prosper over the past 22 years.

Robert Oakeshott reports on this in the context of the region.

A TWO-HOUR bus ride from San Sebastian and you will find yourself in the charming little Basque mountain-valley town of Mondragon which is the birth place and nerve centre of an astonishing group of co-operative enterprises. The group includes numerous varieties of co-operatives covering housing, agriculture, shops and schools. But the most spectacular variety is its industrial co-ops. The first of these was started in 1955 and now there are 62, employing a total of more than 14,000 people with an annual turnover which, even before the latest fall of the pound, was running close to £200m.

They include some of Spain's largest producers of consumer durables (in particular washing machines and refrigerators) and of machine tools. They appear to be competitive not only inside Spain but beyond its borders—nearly 15 per cent. of the group's total production is currently exported. Recent foreign contracts include building plants to make washing machines in the Ukraine and refrigerators in Tunisia and Mexico. This is, therefore, a group of successful, modern, high technology, mass-production enterprises with a growth record of which any capitalist could be proud.

While, like any other group or enterprise in Spain, it has taken advantage of whatever official credits and grants are available, Mondragon has not been the recipient of any special State favours. The group results essentially from a grass root and local (if also Basque National) movement. But the co-operatives would almost certainly not be where they are—or exist at all—were it not for one man. He is a Basque priest called Jose-Maria Arizmendi, who inspired a small group of five men. These men in 1955 founded the first productive enterprise—ULGOR which is roughly the acronym of the initial letters of their names. Father Jose-Maria, now in his 70s, is still very much alive. ULGOR, which produces consumer durables, is the largest of the industrial co-operatives with a workforce to-day of nearly 3,000. Of its five original promoters, three hold top leadership positions in the group, one

is dead, and the fifth left the co-ops to set up on his own at a quite early stage.

The group traces its history back beyond the foundation of ULGOR in 1955, to the early 1940s. It was then that Fr Jose-Maria, who had been on the republican side in the civil war along with the vast majority of the Basques, came to Mondragon. He found a demoralised community. As someone with a strong commitment to social and economic development he also found that all the normal roads to progress (whether directly political or via trade union organisation) were blocked off. His response was to raise money locally to set up a little apprentice school. The five ULGOR founders were all its graduates and in 1955 they decided to set up their own enterprise making small metal heating stoves.

## Structure was 'accidental'

They registered their enterprise as a co-operative, a choice of structure that they now say was "accidental" in the sense that Spanish law offered no alternative form which corresponded even remotely to their ideas. So the Mondragon industrial co-operatives were born. After ten years the workforce had risen above 4,000; after the second ten it had reached 14,000. After ten years sales approached 3bn. pesetas (£245m.); after the second ten, they exceeded 20bn. pesetas.

The apprentice school was steadily enlarged and began teaching degree courses in engineering in the early 50s. It has grown and prospered alongside the productive enterprises themselves and now occupies a magnificent set of new buildings, with what looks like the most modern equipment, a mile or so from the old centre of Mondragon. But its most unusual feature is essentially a democratic one. It still offers, within one institution, both craft courses and programmes for doctorates in technical and engineering subjects. It is as if one could take a course in welding at MIT (and as if the result-

ing combination was on offer not in Boston but in, say, Rapid City, Wyoming).

The institution has played a crucial role in the growth of the co-operatives. It is one of the only two "federal" organisations which the productive enterprises share. Its existence has made it possible for them to satisfy all, or almost all, of their manpower needs from within. It has also made it possible for them to tie in training programmes very tightly with their plans for future expansion.

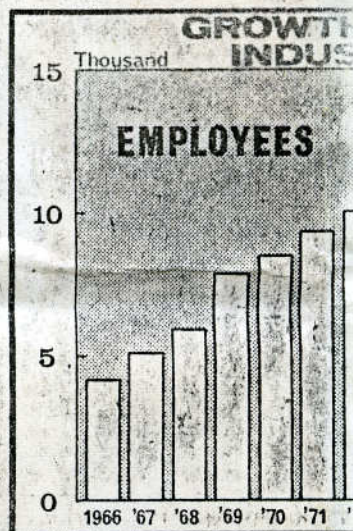
The second "federal" organisation which the co-ops share is their bank. Its Spanish name is the Caja Laboral Popular—or, roughly translated, the "bank of the people's labour," or more simply the "workers' bank." In effect it is a hybrid. It is partly what we would think of as a trustee savings bank because of its numerous clientele of small depositors though it also provides standard banking facilities for, and holds the cash balances of, the co-operatives themselves. But it is also an entrepreneurial or industrial-merchant bank. (Its largest section, with a current workforce of over 90 is called in Spanish the Division Emperarial.)

The new headquarters building is large and modern with the highest quality of workmanship and finish. And from the Basque carvings and sculpture which are on show there, the bank clearly sees itself, among other things, as inheriting a banking tradition of patronage of the local arts. But I found myself wondering what a traditional banker would make of the fact that the maximum salary differential permitted in the bank, as in all the productive enterprises and in the school, is 3:1 before tax.

Started in 1960, the bank had a total of 64 branches, spread around the Basque provinces of Spain, at the end of last year. Its 1975 balance sheet shows total deposits of just under 15bn. pesetas with capital and reserves at just over 1.5bn. pesetas. Pre-tax profits for the year 1975 were a little over 400m. pesetas. So, even by Spanish standards, this is still quite a small, and basically a local operation.

What is much more remark-

able than the bank's size is its record of success in both mobilising small fixed interest deposits from small savers and in putting them to work in the area by advancing short and long term credits to co-operative industrial enterprises. It is an extraordinary achievement. And the familiar clearing banks are



not really a parallel, though doubtless some of the money deposited in a particular area will be advanced to industry in the same locality. It is much more as if a local building society switched its main focus from the financing of houses to the financing of local industry and new jobs.

The bank explains its success as a fund mobiliser on two grounds: first, its appeal to nationalist Basque sentiment and secondly the conservative and slow-footed ways of its main competitors among the savings banks. Of course, what is most remarkable is not so much its success as a savings mobiliser but its success at "picking winners" or rather at both picking and promoting them. Apparently not one of the industrial co-ops to which the bank has advanced money has ever gone bankrupt. It might be more accurate to say that not one of them has been allowed to go bankrupt. All the same, there is no suggestion that the number of rescue operations which the bank has had to mount is at all large.

All this confirms the bank's own account of itself: it is not



# 'Grass roots' enterprises thrive amid the Basques

only (or even perhaps mainly) entrepreneurial leadership but a financial institution. It is from the joint efforts of that equally, and perhaps more so, an entrepreneurial and industrial management one. In effect no new co-operative is promoted, no major expansion or diversification is undertaken, without the bank's advice and support. Moreover its professional and managerial

entrepreneurial leadership but from the joint efforts of that leadership on the one hand and an increasingly large work-force of ordinary people on the other. In other words this is a most successful example of a combined endeavour between the two "sides" of industry. This brings us to the single most

sides of industry). Of course this differential limit, given that the lowest rates are maintained at or slightly above those paid locally and given that differentials outside are much wider, will involve financial sacrifice on the part of the top managerial and professional staff.

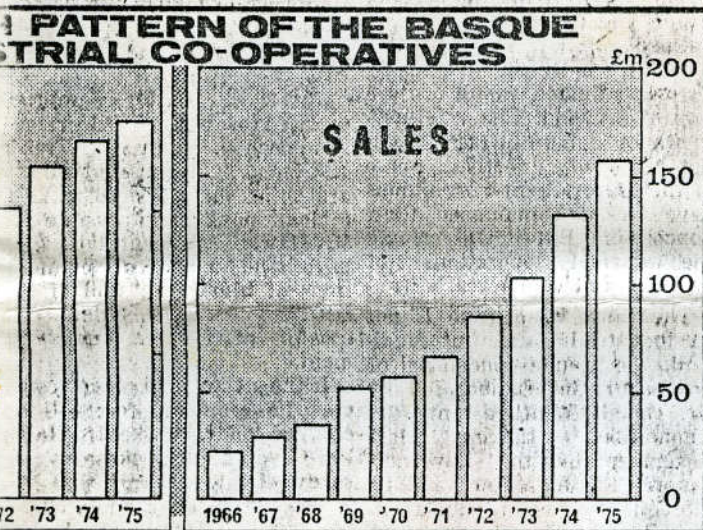
operatives have not been short of high level and dynamic managers and professionals—in contrast with both the French industrial co-ops and the tiny handful of producer co-ops which survive in this country from the last century. It is easy to see that a basically artisan and working class leadership—which has predominated in the British and French experience—might feel inhibited about recruiting managers and professionals with thrust and drive.

## Professional leadership

So far at any rate the Mondragon co-operatives have avoided this problem. I suspect that they have done so not only because of the unifying force of Basque nationalism but because effective leadership has remained with the professional and managerial groups and because that state of affairs has not yet been seriously challenged.

There is therefore a basic lesson to be learned from the Mondragon success. It is to realise the importance of self-help—or people's capitalism—as it can be called in slogan terms. Those who believe that the "failure" of socialism in the Atlantic world may stem in part from its ambiguous attitude to self help and self reliance, will find much to support that belief in the Mondragon experience.

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gerial resources are always at the service of the co-ops should the need arise; and it is no accident that its chief executive, Sr. Ormaechea, is described in Mondragon as the essential entrepreneur among the five founders of ULGOR.

Yet it would be wrong to jump to the conclusion that, national Basque sentiment apart, the main reason for the success of the co-ops has been the existence of this very high powered and professional "workers' bank." It would be wrong because what has been achieved results essentially not just from high level

important puzzle which the phenomenon of the Mondragon co-operatives raises—namely to what extent is it the special features of the Mondragon co-operatives' structure and to what extent is it Basque nationalism which explains this remarkable success.

One feature of the co-operative structure, already mentioned, is the maximum pre-tax income differential of 3:1. It is difficult not to accept the bank's view that it is a big factor making for "solidarity" (and thus for effective "combination" between the two

how the ownership of such capital sums can do nothing but good for the people's feelings of "solidarity" and that they are likely to encourage a lively sense of involvement in the co-operatives' fortunes.

The third feature is the democratic power arrangements of the co-ops. There is the familiar vesting of final sovereignty in a general assembly of all enterprise workers and members which elects what at Mondragon is called the "control" board. This control board in turn appoints the management.

Finally the Mondragon co-

## Academic post for design management

A GRANT of £84,000 has enabled Britain's first professorship in design management to be established. The money has been given by the Wolfson Foundation for a chair in design management to be created at the Royal College of Art, in London.

Announcing the setting up of the chair—a move suggested on this page last week as being imminent—the Royal College

studies and in engineering product development. The universities of Lancaster, Warwick and Surrey might meet the requirements although it is still too early to envisage such a move becoming a reality.

The Royal College feels the subject of design management has been gaining increasingly wide recognition over the past

decade and that the need to study the interaction of the design and the management process to evaluate the contribution of design to business performance has also been widely recognised by industry.

The grant will cover a seven-year period. Should the professorship develop as successfully as envisaged the Royal College

would hope that the chair would subsequently be supported financially by the Department of Education and Science, as are all its other existing chairs.

The Wolfson Foundation has made its donation in line with the policy of its trustees to "help the modernisation of the commercial and economic position of the U.K."