

Forming a new type of entrepreneur: Lessons from Mondragon

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Abstract

The Mondragon Experience reminds us that there should be no separation between economics and ethics; in fact, economic efficiency and the promotion of human development should be an indivisible goal. The Mondragon Experience has shown that this business model is possible, and that it is strong enough to endure the shifts in the economy and the marketplace. While it might be late for large corporations to shift from the sole goal of profit-maximization, at the business schools we have the opportunity to engage our students in the creation of businesses that foster solidarity, the dignity of the person, and the spread of economic and social justice in our communities.

This paper offers some suggestion on how to include the ten Mondragon principles of open admission, democratic organization, sovereignty of labor, instrumental and subordinate nature of capital, participatory management, payment solidarity, intercooperation, social transformation, universality and education on the teaching of entrepreneurship courses, as well as in small businesses. From the business schools, we have the opportunity to give a step beyond philanthropy, corporate social responsibility, and even share-value creation; even if just a handful of our students attend to the creation of businesses based on solidarity and wealth sharing, we would be contributing greatly to the common good of our societies.

Forming a new type of entrepreneur: Lessons from Mondragon

Introduction

As a business student, I was taught that the goal of the organization was to maximize profit now and in the future; and that all the decisions regarding the organization should aim to achieving this goal. Twenty years later our business schools are still profit-centered; and while the concepts of corporate social responsibility (CSR) and triple helix bottom line are present in the curriculum, they are add-ons to the profit-center approach. How can businesses incorporate economic efficiency and the promotion of human development in solidarity, as an indivisible goal? It would be very difficult to change existing companies so radically; however, it might be possible to form business people with this indivisible goal in mind.

As a professor in the School of Business at the Universidad Latinoamericana de Ciencia y Tecnología (Ulaçit), I may have the opportunity to do just that. After reading about the Mondragon Corporation, visiting their facilities and learning from their experience, I believe that we may include important values of Catholic Social Thought –similar to the ones inspired to found Mondragon – in our small new ventures. Even further, based on my experience, I would like to recommend to my student the inclusion of specific values in order to create a successful ventures. This paper will examine the ten Mondragon founding principles under the light of how to facilitate their learning in an entrepreneurship course, as well as suggestion on how a small venture might apply them in practice.

The ten founding principles of Mondragon

Don José María Arrizmendiarieta inquired about a new way of creating wealth for the community, and came up with a third option for a business model: different from pure capitalism and from Marxism and socialism (McLeod, 1997). This business model was founded inspired on

the premises of Catholic Social Thought (CST) of social and economic justice, the dignity of human persons and their work, and solidarity. These premises were translated into ten principles (Herrera, 2004); the basic principles of Mondragon have guided the organization for over thirty years, and they are the compass of the organization and its people (Mondragon Corporation, n.d).

The list and a brief explanation of ten principles of the Mondragon Corporation follows:

1. Open admission: Everyone that accepts the Mondragon principles is admitted to enter, without discrimination.
2. Democratic organization: There is equality among all the worker members; the policy of “one member, one vote” guarantees that this equality is kept in place.
3. Sovereignty of labor: The participants believe that everyone is given the opportunity of transforming nature and society, through labor.
4. Instrumental and subordinate nature of capital: Capital is an instrument subordinated to labor; capital works to enable the people at the corporation, and not on the contrary.
5. Participatory management: The worker-owners participate in the decision making of the organization through various channels: small groups, general assemblies, and self-managed teams.
6. Payment solidarity: The payment of the worker-owners is established in a democratic manner, and it is established as ratio between the salary of the entry level worker and the salary of highest executive. While the approved ratio is 1:9, in reality is 1:5 (Lezamiz, 2015).
7. Intercooperation: Solidarity goes beyond the business unit, and it encompasses other business units, organizations, community, local government and national government;

this type of cooperation among organizations has been crucial for the development of the organization (Lezamiz, 2015).

8. Social Transformation: Everyone is responsible for positively transforming society; an agreed established percentage of the profits is shared in educational funds, community projects, and cultural programs.
9. Universality: The organization abide by the international objectives of peace, justice and development; therefore, it collaborates with organization that promote cooperatives, as well as under developed regions through its own foundation: Mudukide.
10. Education: One of the pillars of the organization, and a particular important aspect of Father Arizmendiarieta, who believed that through education society was strengthen.

The principles applied towards entrepreneurship

Based on my experience as an entrepreneur and as business professor, the ten principles may –and should- be incorporated on the teachings of entrepreneurship. The outcome will be forming socially responsible entrepreneurs, who understand that the creation of wealth encompasses social and financial aspects; these entrepreneurs will be capable building stronger small ventures, capable of successfully enduring the hardships of the first years, and eventually maturing in a business that creates social and material wealth to the community. I will now evaluate the ten principles under the light of how to facilitate the learning of these principles on an entrepreneurship course, as well as some suggestion on how a small venture may apply them on their organization. The principles will not follow the same order as the one used by the Mondragon Corporation.

Instrumental and Subordinate Nature of Capital and Sovereignty of Labor

In a capitalist economy, the objective for starting and developing an enterprise is for the creation of economic wealth; just like I was taught in business school, all decisions regarding the organization must abide to whatever creates the most profit now and in the future. Under this perspective, labor is another resource –like the raw materials – that is part of the value chain in order to create an output that will translate into profits. Following this line of thought, whenever the organization is in financial crisis, one of the most common ways of reducing cost is by reducing the workforce. Human labor is as disposable as any other raw material.

As an entrepreneur, our students must know that financial wealth is one of the outcomes of being an entrepreneur, but it is not the only one, and should not be the main objective. Most small ventures will not break even before the first three years (Hisrich, 2009); therefore, the students must be aware that a venture must be started to pursue independence, self-satisfaction, and the enhancement of the community.

Facilitating the understanding of this principle. At this time it is important to remind the students of the importance of their organization within the community; when developing the business plans, it is important to do a stakeholder analysis –not only a customer analysis- to better understand what impact will their organization have on the community, with their product, services, job creation, donations and tax payments.

Suggestion on how to apply this principle in a small business. The entrepreneur must understand that the organization is the sum of all of its parts, and that every person within the organization brings with them their own goals, dreams, and biases. The entrepreneur must be able to create an environment that respects the dignity of the collaborators, the customers and the suppliers; this must come first, and then profits will come.

Democratic Organization and Participatory Management

Despite the vast amount of literature and research available on leadership and management style, the star entrepreneur is still portrayed as the solitary hero with very unique characteristics and insights. I believe that the great man leadership theory is still very much present in entrepreneurship education, and we are teaching our students to emulate that type of leader when developing their enterprises. What we should be fostering is team work, collaboration, and collective participation in decision making processes. Everyone in the workforce has something valuable to bring; furthermore, they must be able to voice their opinion regarding aspects that affect their workplace. Regarding the cooperative enterprise, Don José Maria wrote in his Reflections: “Workers are not second-class citizens. We must end the practice of considering workers as under-aged children who always need others to make decisions for them in certain areas of their lives” (Arrizmendiarieta, p. 110)

Facilitating the understanding of this principle. At the Business School in Mondragon, we had the opportunity to learn about their special entrepreneurship track. Their learning methodology assigns the students in specific groups that must remain during the next four years. During this time, the students learn to make joint decisions to the survival and growth of their venture; there is no one great leader, everyone participates to the best of their potential (Mondragon Unibertsitatea, 2015). In our curriculum, team work is present; however, most of the time it is just a division of parts for a short term project. Our students are not practicing collective decision making, which is very ironic considering that Costa Rica prides itself on being a very participative democracy. Participatory management may be practiced by the facilitator by letting the students decide on certain matters regarding the course.

Suggestion on how to apply this principle in a small business. Participatory management requires the entrepreneur to manage a difficult equilibrium between complete participation in all decisions –that would slow down, and perhaps hurt the business – and the right amount of decision making on behalf of the entrepreneur. I do not think we could establish a clear cut on when to call for a majority vote and when to call for an individual action from the manager; however, the entrepreneur must be aware of the great knowledge held by his/her coworkers: from customer insights, suggested product and service innovations, tapping into the coworkers networks, to ideas to save money. A democratic organization and participatory management can be implemented by fostering open communication and transparency throughout the organization; the entrepreneur must show trust in the coworkers by consulting on decisions that affect them directly.

Payment solidarity

My father used to tell me a story about corporate social responsibility (CSR), he said that once there was this big business trying to get started on CSR, so they hired a CSR expert. This expert came in ready to a room filled with anxious managers wanting to learn more about CSR. As it is custom in Latin American countries, coffee was served to each one of them by the cleaning lady, Doña María, before the meeting started. The expert started the meeting by asking: “Do you know what the salary of Doña María is?” After some mumbling, they suggested that she probably made minimum wage, which is about \$500 per month. “Very well”, the experts said, “and what is the salary of your CEO, Don Juan?” The crowd was silent, and Don Juan turned pale, green, red and blue; he was definitely not expecting that question. Don Juan quietly mumbled “well, I don’t know, it depends, but let’s say that around \$10,000” “Very well”, the expert said, “there is a clear example of what corporate social responsibility is NOT about. A

company that has 1:20 ratio in salaries is not ready to work its social responsibility externally, some serious work must be done internally” My father told me that the expert was not hired again by that company; instead, they hired a big public relations company that broadcasts every time this organization’s employees help paint schools and clean up the trash at the beach –that was the kind of corporate social responsibility they had in mind -.

Facilitating the understanding of this principle. There is a Swedish term, *lagom*, which means “not too much, not too little, just enough” (Wennmyr, 2003). This sentiment is also expressed in Herrera’s *Poetic Transcription of Mondragon Interviews*, when he interprets the sentiment of the Mondragon worker-owners as: “I’ll never be rich, I’ll never be poor, I’ll have all need, and most that I want – and I’ll have enough” (Herrera, 2000). When is our salary enough? How much financial wealth do we need? There are enough resources in the world for everybody, and yet almost four billion people –nearly half of the world- live on less than \$2.50 a day (World Bank, 2008). These people have been cut off from basic services like water, education, health systems, electricity, and new technology, simply because they cannot afford to pay the prices that profit-driven organizations have placed on these services. In order to build an inclusive society, where these divisions no longer exist, it is necessary to redefine our mental model on how economics should operate. I believe we can achieve this by helping our students reflect on their values and their place in the community. There are two specific exercises that I would like to include in the entrepreneurship course:

- The development of a personal mission statement. I learnt about this exercise last semester in David’s Ethics course. It is a valuable exercise to help the students develop specific action plans towards their main personal goals.

- The “Unpacking Privilege” exercise. I learnt about this exercise at the beginning of the summer in one of my Rainbow Educator’s workshop. It is a valuable tool to understand where we find our social identity (race, sex, finances, education, etc) compared to more and less privileged people in our surroundings.

Suggestion on how to apply this principle in a small business. Participatory management may be practiced by focusing on transparency, and keeping communication open and candid. I suggest the use of frequent informal meetings, where people can discuss about the real issues affecting the organization. Also, the entrepreneur must be aware that his presence on the floor – where the action happens- is as important as his presence in other networking circles.

Education

At the entrance of the Business School of the University of Mondragon a big banner with the picture of Father José María Arizmendiarieta welcomes everyone, it reads “Jakintzak askatuko zaiut – El saber te hará libre”. Education has been a crucial pillar for the success of Mondragon, and it is a crucial pillar for the success of any organization. An organization will continue to learn as long as its members continue to learn, as well.

Facilitating the understanding of this principle. Currently Ulacit fosters a learn-by-doing methodology, similar to the one explained at Mendeberry (Mondragon Unibertsitatea, 2015). Education is more than memorization, it requires the true appropriation of the concept on behalf of the student; this can be achieved by doing, by letting the student discover the knowledge. If we are able to facilitate the discovering of knowledge, the students will become life-time learners, for they will be able to identify what they do not know, and look for ways of obtaining the knowledge –through formal or informal training.-

Suggestion on how to apply this principle in a small business. A new business does not have the resources to pay high salaries, but it might have the resources to foster education among its coworkers. For example, the entrepreneur must encourage the employees to continue education: from finishing primary school and high school for the entry level workers, to pursuing master degrees for those coworkers that already have college degrees; even language acquisition is an important area of development. Since the organization might not have the money to pay for the studies of the coworkers, the organization might be able to give the workers time to prepare for their classes, work together with an academic institution to obtain a discount for the workers, or even partially refund a worker for their good grades.

In José María Arizmendiarieta Reflections, he writes “Education is the natural and indispensable point of support for the promotion of a new social order, humane and just. (Arizmendiarieta, p. 48). I have noticed that some organizations do not want to educate their employees because they fear that once the employee is educated, he/she will leave. I think that is a greedy management approach; if we educate our employees we will be serving our company and our society; if our employees find a better place to develop themselves after we have helped them get educated, we have contributed our share to the development of our society.

Open Admission

While it will not be possible to declare a small venture as an open admission organization; it is important to recognize the value of holding a non-discrimination policy broader than what is legally required.

Facilitating the understanding of this principle. In order to develop the sensitivity required in the future entrepreneur, again I would use the Unpacking Privilege matrix, so that the students are aware of the other social identities that surround him/her. Discrimination has many

shades, and we should be able to identify discrimination, and not allow it in our organizations, even if we are already doing what is legally required.

Intercooperation, Social Transformation and Universality

This is the one of the most difficult principles to develop; it must stem from the notion that we are all connected, and that our individuality is just an illusion. It took me many years to start grasping the concept myself, and I am not sure on how to facilitate the understanding of this principle other than suggesting exercises that would increase the student mindfulness and compassion.

Suggestion on how to apply this principle in a small business. A small business will take some time in breaking even, but when it does, it should allocate some established percentage for some community project. The project may be voted among the coworkers; sharing the wealth of the organization with the coworkers and the community enhances the common good and increases the sense of belonging of our coworkers. It is a reminder that the wealth we create is a product of many more people than just the ones working in the organization.

Conclusion

The Mondragon Experience reminds us that there should be no separation between economics and ethics; in fact, economic efficiency and the promotion of human development should be an indivisible goal. The Mondragon Experience has shown that this business model is possible, and that it is strong enough to endure the shifts in the economy and the marketplace. While it might be late for large corporations to shift from the sole goal of profit-maximization, at the business schools we have the opportunity to engage our students in the creation of businesses

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