

(Background readings for International Labour Organization Workshop on Workers' Cooperatives, Bangkok, Thailand, 30 November -- 2 December 1993)

**Lessons from the past:
Selected readings on the systematic
development of workers' cooperatives
to generate employment and income**

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Lessons from the past: Selected readings on the systematic development of workers' cooperatives

[Editors Note: This compendium has been compiled from selected publications, reminiscences, reports and the worldwide experiences of practitioners, researchers and others who have participated in, studied, or written about group or "cooperative entrepreneurship," the systematic organizing of workers' industrial cooperatives as a strategy for economic development and job creation. The materials included have not been quoted verbatim, but have been edited and interpolated for ease of use and continuity, and some material has been deleted which is considered to be extraneous or not relevant to understanding the concept of cooperative entrepreneurship.]

I. Gung Ho / Indusco / C.I.C.: Working Together to Organize Industrial Cooperatives

How did the Gung Ho industrial cooperative movement get started?

[Excerpt from Gary B. Hansen, Using "Cooperative Entrepreneurship" to Generate Employment and Income in Developing Countries and Eastern Europe, Logan: Utah Center for Productivity and Quality of Working Life, May 1993]

Experience in a number of countries has demonstrated that the function of the business entrepreneur can be institutionalized, expanded and strengthened by using a unique social invention: dynamic, specialized organizations which function as proactive creators and incubators of new businesses. The prototype of organizations needed to institutionalize entrepreneurship to create jobs and stimulate economic development was the Gung Ho (which means "working together" in Chinese) cooperative movement conceived by Helen Foster Snow, the first wife of American journalist Edgar Snow, and developed and implemented by the two Snows, New Zealander Rewi Alley and their Chinese associates in war-torn China in 1938. Responding to the plight of the thousands of Chinese refugees streaming into Shanghai, Helen Foster Snow came up with the idea of cooperative entrepreneurship.

Why not organize the Chinese workers into cooperatives owned and managed by themselves, financed by labor hours instead of cash capital? Here was a way to bring about the industrial revolution, to put the unemployed refugees to work in the interior to help win the war and to build up permanent prosperity in the villages. Here was a democratic base for whatever kind of society the Chinese might decide to have in the future.

The process they devised consisted of recruiting and launching entrepreneurial teams of trained engineers and technicians who began organizing industrial cooperatives throughout the countryside. Edgar Snow described how they went about it.

Technicians and organizers went straight to the country and tackled the tremendous task of educating the people to a new idea. Everywhere they went they called meetings, preached their principles, and hung up their announcements and signs, promising technical help and loans to those who would organize for production. Suspicions had to be dispelled by performance. Slowly the first units won public confidence. These men meant exactly what they said. Applications soon far outnumbered the capacity of the small staff and available capital, and thousands were put on waiting lists.

Laborers were registered, selected according to health, experience and character, and grouped according to crafts. Co-operators taught them how to organize, how to conduct meetings and how to study local markets. Technicians helped them find machines often dragged hundreds of miles overland from the coast--how to locate safe factory sites, and how to use, and later how to make, simple machines. Above all they taught them how to improvise with the materials available. (Snow, 1941)

Using this approach to cooperative entrepreneurship, the Gung Ho cooperatives spread rapidly throughout the countryside, and the Chinese were able to create several thousand new manufacturing enterprises and nearly 300,000 jobs in the period from 1938 to 1945....

The Gung Ho system in China operated successfully for a number of years, but was eventually caught up in the political infighting within the Koumingtang and between Chaing Kai-shek and Mao Tse-tung and eventually lost its leadership and momentum. The entrepreneurial heart of the system was dismantled before the end of World War II, and the remaining industrial cooperatives became casualties of the resurgent Chinese Civil War. The available evidence and published reports indicate that the Gung Ho system was successful both as a generator of jobs and income...

What is Gung Ho?

[Excerpts from the writings of Rewi Alley, one of the founders and key organizer of the Chinese Industrial Cooperative (C.I.C.) Movement in 1938, which became popularly known as Indusco or Gung Ho (which means "working together" in Chinese) Cooperative Movement. Except as otherwise noted, all excerpts in Section I are taken from a collection of his writings published under the title: Rewi Alley on Gung Ho, 1989?]

(From: "Gung Ho - What?" 1984)

What are Gung Ho industrial Cooperatives? They are simply groups of people who work together to gain better livelihood and to bring economic stability to the areas in which they operate. Such groups might consist of unemployed workers, or workers in a bankrupt factory, who have decided to work together in the cooperative way, taking all responsibility for their own profits and losses, electing their own leadership, and not being owned by any outside organization that wishes to profit from them. In agriculture today, the responsibility system, puts the onus for production squarely on the backs of the producers themselves. A Gung Ho cooperative does the same for small industry. Wherever it has been tried resolutely it has worked well. Mondragon in the Basque country of Spain, in India, and in various other places around the world.

How Were Gung Ho Cooperatives organized?

[From: Rewi Alley, "The Chinese Industrial Co-operatives," Manila World, July 25, 1939]

From its five bases situated in the North-west, West and Southwest, the C.I.C. carries on its war against the exploitation of China's peoples and of her natural resources by the aggressor. The hungry, tired groups of refugees arriving from the war-torn districts and occupied areas find a new meaning in life and forget their individual troubles when some tireless "co-operator" from headquarters addresses them. He will outline a definite project to suit the group and the locality, will provide them with technical assistance, arrange for a loan of money or machines and will, in an incredible short time, cement the group into a self-supporting entity with hopes, aspirations and a national consciousness.

Each unit or "society" is organized according to usual cooperative rules. Each member receives appropriate wages and the surplus is divided according to stated formulae. Each society has its own manager who represents the society in inter-society relationships. The activities of the societies are carefully supervised by the C.I.C. co-operators and engineers who examine accounts and balance-sheets, solve the technical problems which spring up like mushrooms and who keep a sharp eye on the conditions of the worker, foster the community welfare work and inculcate, in general, the true spirit of co-operation. A constitution to meet conditions in China has been drawn up for the Chinese Industrial Co-operatives by Mr. W.H.K. Campbell, expert on co-operatives from the League of Nations, now in this country.

The membership of these C.I.C. societies range from seven, the lowest number that may be organized, to any number; the largest co-operative at present, engaged in match manufacture, has a membership of two thousand. The qualifications for membership are simple. The applicant must (a) reside within the area of operations of the society, (b) be capable of his quota of work in the business of the society, (c) be honest, of good character and free from vicious habits, e.g., opium-smoking, drug-taking, gambling, etc. Membership [will] be forfeited by (1) loss of any of the qualifications outlined above, (2) ceasing to hold at least one share (nominal value \$2.00), (3) insanity, bankruptcy, or loss of civil rights, (4) resignation or expulsion under the terms of the constitution.

There has been no failure of any C.I.C. unit [244 were organized during the first six months of operation] to date speaks for itself. At the present time about fifty kinds of goods are being manufactured in the co-operatives registered under the C.I.C.

Can a sound industrial co-operative movement be created through the C.I.C. organization?

[From: Letter written by J.B. Taylor to H.J. May, International Co-operative Alliance on May 2, 1939]

The C.I.C. [Chinese Industrial Cooperatives] has never been completely organized, because it had to get to work without delay and a good deal of improvisation took place. There was a scarcity of suitable and available personnel for some of the responsible positions...In addition to Rewi Alley, the former industrial secretary of the Shanghai Municipal Council, the experienced group included some competent Chinese engineers who had been educated in America and had been helped to secure practical experience in firms like Ford, Westinghouse, Dodge Bros., etc. through the efforts of Joseph Bailie, an American Missionary in China....The C.I.C. was provided also with funds for administrative and promotional work and it is from these funds, supplemented by gifts from many sources that the staff is supported....The co-operative character of the industrial co-operatives will depend on the work of the staff and the education and training provided. Reliance is being placed upon the process of guiding and nurturing the societies by the organizers and inspectors, which it is hoped will result in the great majority of the societies becoming truly co-operative. There is ground for this expectation to be realized, based on past experience in family relief work and the creation of mutual aid societies, and the latter have been developed (usually after a year) into co-operatives. Where a [C.I.C.] manager is found to be working in non-co-operative ways, he is removed, and a more suitable man installed. The C.I.C. reserves to itself the right to require that the management be conducted to its satisfaction.

The question of creating sound industrial co-operatives is carried one stage further back, to the personnel and methods of the C.I.C. As already indicated, the leading members of staff have been drawn from: (i) co-operative organizations connected with the rural movement, and (ii) engineers with a keen social interest. The new recruits are being given ten weeks' training, which is to be extended in the future to five months, and arrangements are being made to continue training through several years of service, promotion and the carrying of wider responsibility being dependent on results. It is realized that much time and thought must be given to shaping policies; to developing techniques and giving adequate training therein; and to creating a framework within which a genuine movement may grow up.

The lines on which this is beginning to be laid down include three elements: (1) The individual society is not conceived as an entirely independent, isolated unit, but as part of a movement. We devised the rule that any profits in excess of 20 percent of the annual wage and salary bill should be pooled under the control of a joint council representing the C.I.C. and the federation of industrial cooperatives in the local area or region. (2) Linkages have been established with consumer and other cooperatives in the local area and region to promote inter-cooperative trade and mutual support. (3) It is already felt that the joint council must be the body to frame regulations governing the employment of apprentices and hired labour and laying down general principles as to wages.

Our limiting factor at present is not in money or in opportunity but in suitable personnel. We are all buying our experience and attempting to work out techniques and devise policies as we go along....Our staff is perhaps weakest on the side of practical business management and we are kept from development in some fields by the lack of suitable technical experts....We also need experts in accounting, including cost accounting, and in workshop management, and in co-operative principles. On the technical side we need a good blast furnace man, a good iron and steel expert, an expert on coal distillation, and several industrial chemists.

Enough has been said to indicate the need of the wisest and most experienced leadership in this voyage through uncharted seas threatened by violent storms. The interest of the best minds in the world movement and the moral support of the movement as a whole would be an immense encouragement and strength.

What have we learned? An evaluation of the C.I.C. Movement after Two Years

[From: Unpublished memorandum written by Rewi Alley, "Some Comments on Work For CIC 1940 Conference," July 13, 1940.]

Preamble.

During the last two years it has been my privilege to move over much of Free China in connection with the work we are all keen to see progress.

The following remarks I make are not directed at any one of my fellow-workers in this business and this movement....They are made so that we can discuss points arising from them at this conference, and they represent some of the fruits of what experience I have been fortunate enough to gain in my contacts with Chinese industry generally.

Promotion: Locally. There is a great deal of work in need of being done in local promotion, so as to educate public opinion in Industrial Co-operative ideals, and to give confidence in the movement.

Efforts should especially be made to have our work understood by Government departments which deal in economic affairs. We need information regarding natural resources. We need buyers for products.

The strongest efforts, therefore, should be made always to maintain the best possible relations with all Government officials we contact.

Central headquarters should co-ordinate promotion work as far as is useful, and should take steps to assist local promotion when this is evidently lacking. A successful business firm spends a great deal on advertising. Promotion--understanding of its aims--by both members and the public, is the best advertisement for its products the CIC can make.

Inspection. Up to the present, our inspection work has not been adequate. I am of the opinion that inspection work needs to be reorganized, and the best type of man obtained for this work. On the Technical side, the Chief Engineer's work should be largely inspection--where he can make the fruits of his experience helpful. An inspector who rushes around, spending our so small allowance of travel funds, and simply filling in forms or being a detective who is secretive and aloof, will be of no use to the cooperative or to the depot he is visiting, and this will not help much.

Statistics. We must collect accurate and complete statistics. We cannot expect bankers to help us if we cannot show proper figures. We must also be able to demonstrate to buyers that we can produce the products in sufficient quantity.

Education. Everywhere I have seen the immense need for better education. This applies to both staff and cooperative members. There has been some very good work done in some depots, where short courses have been carried on for members, and in SEHQ some members of coops went through the three month's training course which has proved very helpful to them, and has produced some very outstanding chairman.

The work that has been done in technical training work of prospective cooperators I have seen, and find useful. More of it needs to be done.

I consider the education of cooperative members' children to be one of the most important things we have to do in the future. We want the child, as he grows up, to enter the cooperative group naturally and easily, and every child that does this will in turn be a new advocate for cooperation in industry.

Constitution. There is need for a uniform cooperative constitution. Coop members need to have a copy that they can talk over and study. It needs to be put into simple, easily understood language, so that all points can be covered. In industrial cooperation we have to deal with so many more phases of life than does either credit or consumer cooperation. In industrial cooperatives people live by their cooperative. In other cooperatives, the cooperative is an adjunct.

Federations and marketing and supply. It becomes more than ever apparent that the success of our work depends very much on the local federation of co-ops, and on its having a progressive, energetic Marketing and Supply agency. Where our work has been good, one sees such a facility. The ultimate victory of industrial co-operation is bound up with the results achieved in linking all marketing and supply agencies together, thereby giving each little co-operative the advantage of collective buying and selling facilities. In this way the whole chain of co-operative industry can stand, and can weather any storm.

I would suggest that even if there were only two co-ops in a locality, they could form a federation, and in so doing increase their strength.

Research and Development. Research work should be carried on in the best way possible under existing circumstances. Research studies should be published so that all co-ops can share the benefits. In addition to the work being done on research in NWHQ and in SEHQ, we should try and learn from the excellent work being carried on by some of the universities at this time.

Technical Training. There is a need for all branches of Indusco service to know something of technical processes. Both the organizer and the accountant need to have some rudimentary idea of what an industry is and how their work fits in. I hope that we can induce more technicians to become organizers as we go on. But in the meantime I hope that our Chengtu Training Institute that is proposed will be able to do something to give just this kind of training.

Then again, engineers in many cases need to be broken of their ideas of huge factory chimneys, great turbines, million-dollar plants, and come down to the reality of industry that is to be controlled by people, and forget ideas of great industrial concerns in which the people are second to machines. We must be wedded to a new ideal -- that of making small industry produce as efficiently as any industry, and to have this industry on a co-operative basis.

The technical training of apprentices, I consider, is to be an important feature of CIC work. If an apprentice during three or four years of his apprenticeship can get in addition to his evening literacy classes, say six months training in elementary machinery drawing and design, and in the technical possibilities of his trade, it will be of very great use to his co-op in the future. Friends abroad have written me on this subject, and I hope that funds will become available this year to start two such schools in Gung-ho which will show us what can be accomplished in this line.

Transport. We still have not been able to pay proper attention to this most important aspect of our work. The organization of co-operative transport units to work together with our marketing and supply agencies will become increasingly important.

Accountancy. We must have from workers on this side of our work the same zeal for Gung-ho ideals as we have from our organizers. The conception of Gung-ho as a business and a movement--and not as a "chi-kwan" must be first and foremost. The accountant must always say, "If this were my business, on which I had to live, would I do this?" He must follow the direction of the Chief of the local office, and see that cooperatives are carrying on their accounting in a thoroughly business-like manner. That cost accounting everywhere is being used. He must be able to travel--to walk in all weathers in muddy paths in straw sandals if necessary to see that all is being kept straight. He must be as self-sacrificing and enthusiastic as the best in the movement.

The accountant must not strive to give the impression that he is running the whole business. His job is to see that all monies used are accounted for properly, and that all coops are assisted to carry on their business in a business-like way. The chief criticism of the CIC both from inside the organization and from outside it, comes under the heading of "Accountancy" and our accountants must know the meaning of cooperate. Without the right spirit we shall be left with a bunch of small men--who will keep within the law by doing nothing, and with a drawer full of false chops, render receipts that will look and be so perfect that the bureaucrat will be completely satisfied. Gung ho cannot produce results and have this.

Consolidation. The necessity of consolidation is ever before us. To consolidate work in depots by striving for better educational facilities for staff and members. To make for basic trades--iron founding, cotton spinning, machine shops. To have cooperative federations set up and marketing and supply depots everywhere. And all marketing and supply depots joined up. To organize and finance many new coops and depots on the main lines of communication so that the chain of industry will stand. A few productive units isolated cannot stand. Thousands joined together can.

Consolidation means better transport work. It means better inspection, research, and training.

Criticism. Indusco, we must always remind ourselves, is a very practical expression of the Principle of People's livelihood. But it is not a political movement. And none of us are politicians. It is a popular movement for better business and better production. Engineers and cooperators, like doctors, should be welcome everywhere. Industry is a delicate thing -- only those in tune with it can run it successfully. So to avoid criticism, we must see that our staff is geared well into the organization, and that we produce what we set out to produce, in spite of the innumerable difficulties that lie in our path. You will be denounced from all quarters -- by persons who cannot produce themselves, - that is a sign that we are succeeding most than any other; but take care that there is never any truth in the denunciation that we are not producing -- that our coops cannot stand, cannot do any of the things that they set out to do.

What should a new Gung Ho movement set out to do?

[From: Rewi Alley, "Gung Ho--A New Approach," 1984]

What should the new Gung Ho movement for industrial cooperatives set out to do? In what way is it new? In the first place it sets out to promote workers cooperatives, that are truly cooperative in the accepted international meaning of the word. With members being shareholders, everything owned by the cooperative itself, which is responsible for all profits and losses, the group appointing its own officers, and inviting whoever they wish to be their technical advisors.

In the first instance after setting up the cooperative, there will be many difficulties to surmount. Sometimes it becomes hard to get legal status to operate. There are the difficulties of housing, raw materials, marketing and supply. As the group surmounts these so will mutual confidence and understanding grow, as well as the strength to meet newer problems. With its economy improving, the influence of the cooperatives will increase.

Only if the cooperative holds staunchly to cooperative principle, however, can it have hope to succeed, and spread its influence to help those who are in need of it.

Gung Ho with its call to work together to gain better livelihood, has a world wide appeal.

Gung Ho is a people's movement aimed to give full employment to the many who need and welcome it.

Successes and Failures of the Gung Ho Cooperative Movement (1938-1945):

[From Rewi Alley, "Thinking Over Gung Ho," 1979]

Successes made by Gung Ho came about because the people like this way of working, and because economically at that time they so badly needed it. Naturally, it also came in relation to the technique of the promoters and the availability of loans. Many of the successes actually, were dramatic.

The failures came mostly because of the chaotic, corrupt society in which the cooperatives had to try and operate. The failure to beat the forces of the old society was too often, also, due to the lack of practical experience amongst the organizers, and amongst the technical leadership itself.

The organizers, many of whom were patriotic young people who had come inland from coastal universities, wanted to do their work well. But they had to learn a whole new language--the language of a production they had always taken as granted. They also had to overcome the customs and opposition of those who tried to take advantage of the new enterprises for their own selfish gain and those who exerted political influence to subvert or interfere with them.

Ten Lessons from Gung Ho:

1. People who can live along with ordinary folk in the villages and lead them forward in improved production on an industrial cooperative basis, must be trained. They will hardly come from any kind of universities or colleges existing now. Their training must be on lines that will actually adapt them for the job in hand. [Alley established a residential training center for young people at Shandan to provide the type of training needed for future cooperative entrepreneurs.]
2. Operated under the conditions of the old society, the "owner" type must be held in check, and the democratic procedure rigidly adhered to. There can be no bureaucracy in an advancing industrial cooperative. It must be a joint action organization operating on natural rather than regulated, taped off lines, using fully the creative potential of its membership.
3. There is no end to the number of [industries and] crafts that can be carried out in the village industrial cooperative. Whichever country discovers this simple thing, should the country be organized on a [cooperative] basis, it will leap ahead of all others in a very short space of time.
4. It is not essential for [industrial] cooperatives to be grouped around a great city to produce industrially. The small power plant by a mountain stream in a hinterland valley could well make it possible to produce more watches, better clocks than even a modern Switzerland. Not all industries need a complete big plant. Good rail, road or river transportation is important. But the most important thing is to have the human material properly organized to carry the projects through.
5. The movement side needs to be promoted. "Gung Ho Worker" or "Gung Ho Member" are not condescending terms and were taken proudly. The movement side telling of successes on various fronts, bringing a spirit of friendly competition, can be made valuable.
6. All kinds of small heavy industrial units can be started and made to fulfill local needs, taking advantage of the small scattered but frequent deposits of ores available throughout many areas.
7. In the Gung Ho movement, members could be of any creed or race, yet all could join in a movement for better living for all, in so doing learning to understand each other and appreciate each other better.
8. In the early days of Gung Ho, it was found to be the best practice to first discover a need, then the people who are trying to meet it. Then when these have been brought together show them what cooperation can do for them all. Any first industrial cooperative in a locality will have a difficult time, because too much isolation does not suit cooperation, and there are many contradictions to be solved. Yet the start must be made somewhere, and if the right kind of practical promoters are trained, they will locate the starting places alright. Eventually, the natural way forward is through federating similar industries and crafts. Until then the cooperative federations will simply be those of all district industrial cooperatives.
9. Such a movement as Gung Ho can only come to full fruition in a scientifically organized society [an open, democratic society?]. Yet that does not mean to say that in countries of Asia and Africa where the old society still operates, nothing can be done with it. Experience has shown that even in traditional and reactionary societies people can benefit from the Gung Ho ideas. Even when the old society gives place to the new, an understanding of what the movement can do is not easily come by. It is so revolutionary that engineers and technicians educated to carry out the needs of large scale industry cannot easily appreciate its possibilities, and actually are not trained so that they can give any effectual leadership to it. In the early stages, a movement such as Gung Ho must get support for its training, marketing and supply work, and other basic problems. It must also interface with existing productive organizations.

10. Such as movement as Gung Ho will only spread and prosper, if it is on a natural, democratic basis. It cannot be made a dumping ground for those who are failures at all else, who do not know how to carry through a practical job of work and who seek to penetrate an organization simply for easy livelihood, maintaining their position by playing small politics. It cannot succeed if its membership sits back and expect the state to do their thinking and carry their responsibility.

How to Organize a Gung Ho Movement:

1. A planning group be set up, which would be composed of three sections:
 - a. Organization
 - b. Promotion
 - c. Finance and accounting

It would have to be financed by the state in the first instance, but after five years should be supported by the cooperatives. Its organization section should be responsible for organizing first production groups, and training cadres to assist. Its promotion section should tell the people what the project is, invite comment, technical help, and constructive ideas. This planning group should be small, and not degenerate into becoming a bureaucracy.

2. A pilot industrial cooperative should be set up with a group of people who volunteer to join. Production should be started at once, and training in cooperative organization given at the same time, as experience in working together is gained. This unit should be situated near the capital city, yet should be able to reach out into villages beyond. Unemployed youngsters could be used with a strengthening of old workers. Retired workers might well be used for technical know-how.

Financing over the elementary stages would have to be worked out. The planning group would after a time, become the leading group for the whole movement. If organized well on a nation-wide basis, and as a people's movement, it should be able to pay for its own technical research and training, after a preparatory period.

Cooperative organization should focus on workers' industrial cooperatives. The kinds of work that these cooperatives should engage in would depend largely on what is available locally. Technical and engineering expertise should be recruited and made available to help develop economically viable cooperatives in crafts and industries with market potential, in industries which can meet the needs of the communities, in industries and crafts which can take advantage of the available resources, and in those which use modern technologies. The idea of cooperative groups taking full responsibility for their own advance should be kept in mind.

It is important that cooperative membership be given a sense of belonging. A good movement song, organized activities of one kind or another would help production. Technical know-how should be sought and gained by the members.

Providing financing for the cooperatives must be worked out.

Relations with other industries in cities and the countryside would have to be worked out satisfactorily. Marketing and supply arrangements also.

There are many more aspects that will need to be considered. The above are offered as a basis for discussion.

First Steps in Activating Gung Ho

1. Leadership

A leadership should be set up that aims at establishing a nation-wide movement of cooperative units for small production responsible for their own organization and production.

2. Promotion

The setting up of a promotion group, with branches later in main centers, responsible for organizing pilot cooperatives, and for arranging the financing necessary. All precautions to be taken against producing another bureaucracy.

3. Training

As the youth which would predominate in most cooperatives has gone through the period of poor education, and will have had no skills, there should be a close relationship between the new Gung Ho movement and half-work half-study schools. The promotion group might even be made responsible for one such school. Successful cooperatives would increasingly, of course, carry out their own training.

4. Movement

To get the unemployed of the country, especially the youth into creative work, this movement for working together in production appears to be necessary. If started successfully it would spread smoothly. It should have a minimum of interference in working, with technical help being given as well as that in marketing and supply especially in the early stages.

5. Size and Scope

Cooperatives would be from seven members upwards, embracing all kinds of productive work, in all localities throughout the country. Regional promotional offices would service them, arranging for loans, etc. Required is (a) promotional fund, and (b) loan funds, for cooperatives.

6. Research and Experimentation

The movement should be serviced by a research and experimental unit, that would devise mechanization for the small units needed.

It should not be thought that to start a successful movement, there will be no cost to the state. Promotion, research and experimentation will require to be financed, until the movement spreads far enough for these services to be supported by cooperative federations.

7. The Need and How to Meet It

The realities of the situation as it exists today, points definitely to the need for a new Gung Ho. "Working together" is a good slogan for the next stages. The need, however, can only be met in a methodical way, building on successful units as they are formed and gaining experience by the promoters in the process.

Cooperatives will work most anywhere, but success requires work

[From: Rewi Alley, "Further Thoughts About Gung Ho," 1986]

The cooperative starts out in its working life as a small unit composed of a group of people who are interested in the idea and want to make it work. It needs thoughtful practical promoters to begin with, to help it to solve the many problems any new organization must face. There would need to be special classes to train such promoters and also the accountants essential to every production group. There is no way to escape work if a coop is to succeed. Work and work together is a basic slogan for the new Gung Ho. Work as a way of life and work together as a slogan to live by--is a motivation youth needs. Cooperatives can be operated [as manufacturing enterprises, as service enterprises], as forestry cooperatives in the hills, as road maintenance cooperatives on the highways. They can be made to fit into almost every branch of national life. Because they are a people's organization and organize themselves they do not need a large controlling bureaucracy.

II. Mondragon: A Modern Industrial Cooperative Complex

Understanding the Mondragon Cooperative Complex

[From an article with the same title by William Foote Whyte which comprises Chapter 3 in Jon D. Wisman, ed., Worker Empowerment: The Struggle for Workplace Democracy, 1991.]

The Mondragon cooperative complex in the Basque country stands out as an extraordinary refutation of the conventional wisdom that worker cooperatives have little possibility of long-run financial success and survival. Mondragon has not yet become a household word to the general American public, but it has attracted great interest among those involved with worker cooperatives or other forms of employee ownership. This raises the question: what can we learn from the Mondragon experience? (For a comprehensive study of Mondragon, see Whyte and Whyte, 1988.)

Evidences of Mondragon Success

The first worker cooperative was founded in Mondragon in 1956 by five men, along with eighteen of their associates. By 1988, the cooperative complex had grown to over 21,000 worker members in over 100 firms.

In the United States, various studies have shown that 80 percent of the private firms created in any one year have ceased to exist within five years. In the Mondragon complex, the failure rate has been less than 5 percent in the thirty-two years since the founding of the first worker cooperative. Furthermore, all of these failures have been very small firms which were not able to establish a secure market. No worker cooperative of substantial size has gone under.

A Summary History

The history of the Mondragon cooperative complex can be summarized in five fairly distinct time periods, as follows.

(1) 1941 to 1955: Laying the foundations. The story begins with the arrival in Mondragon of a young priest, Jose Maria Arizmendiarieta (generally known to his followers as Arizmendi, or simply as Don Jose Maria). In this predominantly working-class small city (population about 8,000 in 1940), Arizmendi concentrated on working with the blue collar youth and their parents. In the early years following the Civil War (1936 to 1939), the Basques-- whose sympathies had been predominantly with the Republican cause--found themselves in occupied territory under the tight control of the Franco dictatorship. The Catholic Church was the only institution within which people could gather for discussion without a government permit. It was a time known as the hunger period. Not only desperately poor, people were depressed in spirit since they had lost control of their communities. Within this setting Arizmendi began developing community organizations to meet the most pressing problems. He was particularly concerned about providing technical education to give youth opportunities to work in industry. This led to a community campaign to found what became the Escuela Politecnica Profesional, beginning as a two-year program to teach the young boys industrial craft skills. Over the years, the educational program expanded though the high school level and to approximately the equivalent of three years of a U.S. college education in engineering. After his death in 1975 the school was renamed after Arizmendi.

Besides his formal teaching assignments in the school, throughout these years Arizmendi carried on an active program of discussion meetings with the young people, focusing on the opportunities to integrate social values with the development of technical and scientific skills.

(2) 1956 to 1969. This was a period of rapid growth, with Spain largely isolated from other nations in its trading relations. It was therefore a time in which anyone who could produce a useful product at a reasonable price could find a ready market. The first worker cooperative, Ulgor, was established in 1956, followed by others. A cooperative bank, the Caja Laboral Popular, was founded three years later specifically designed to provide financing for the development of worker cooperatives. Over the years it developed an Entrepreneurial Division to assist groups of workers in establishing their own worker cooperatives and also to provide consultation, technical assistance, and, during the recession period, emergency intervention to save cooperatives from going under. When

the Spanish government ruled that worker cooperatives could not be covered by the Spanish social security system, the leaders of the movement developed Lagun-Aro, a cooperative providing not only social security protection but also industrial medicine and, most recently, various types of insurance. In 1965, four of the first cooperatives in Mondragon banded together to establish a group management so that they could share some services and costs to gain economies of scale without sacrificing the autonomy of the individual cooperatives. In this same period, a task force from the Caja responded to calls for help from the independent and failing consumer cooperatives. This led to the creation of Eroski, a hybrid consumer-worker cooperative, which now has branches throughout the Basque provinces and has become one of the leading retail enterprises in Spain. Toward the end of the decade, teachers in the Escuela began developing an applied industrial research program, which became an independent entity with its own building later in 1975.

(3) 1970 to 1978: Slower growth with increasing internal tensions. The oil price shocks of 1973 and 1975 had an especially heavy impact on Spain, which had no oil resources. The Mondragon complex continued to grow slowly but with diminishing profits in a deteriorating national economy with accelerating inflation. This was also a period of major political changes. As the old dictator was dying in 1975, there was renewed political activity throughout the country with people organizing to contest for national leadership in the post-Franco era. The national political turbulence was accompanied by increasing political activism within the cooperatives, culminating in 1974 in the only strike in Mondragon's history. By private industry standards, this was a small strike with only some 400 worker members of Ulgor and an associated cooperative out of a total of over 4,000 worker members going out for only a few days. Nevertheless, the clash between reality and cooperative ideology provoked a good deal of debate in the community and within the cooperatives, leading to revitalized efforts to find ways to resolve internal tensions democratically.

(4) 1979 to 1983: Coping with the recession. The worldwide recession began earlier in Spain than in most other industrialized nations and had a more severe impact upon employment. As late as 1983, Spain had over 20 percent unemployment, and the Basque provinces were over 25 percent.

In 1983, approximately one out of every three of the Mondragon cooperatives needed help from the Caja, ranging from occasional technical assistance to full scale reorganization and refinancing. Lagun-Aro also had a vital role in helping individual cooperatives and cooperative groups to maintain employment by shifting surplus workers from one cooperative to another which could provide employment.

The struggle was extraordinarily successful. In the most difficult year--1983--unemployment among Mondragon coop members reached only 0.6 percent.

(5) 1984 - : Renewed dynamism and expansion. As the Spanish economy recovered from the recession and entered into a period of rapid growth, the Mondragon cooperatives began expanding at an even more rapid rate, both in national marketing and in exports. Employment grew slowly in the complex from 1984 through 1986, and then more rapidly in the succeeding years. Five hundred jobs were added in 1987 and 1,050 in 1988, bringing total employment in the Mondragon complex to over 21,000. In 1988, sales of the Mondragon cooperatives increased by nearly 15 percent over 1987.

Refuting the Conventional Wisdom

Ever since Beatrice and Sydney Webb rendered their negative judgment on the economic potential of worker cooperatives early in this century, it has been generally assumed that a worker cooperative was an appealing ideal but of little practical significance. This judgment found considerable support in the history of worker cooperatives, since few survived, prospered, and maintained their cooperative ownership and management over long periods of time.

We can better understand the success of Mondragon if we review the factors that were thought to militate against success and discover how Mondragon has overcome them.

There have been four main arguments against the viability of worker cooperatives:

(1) Worker cooperatives may require bank credit to survive and grow. Private bankers tend to be skeptical of worker cooperatives and: therefore are not inclined to extend credit. Mondragon has overcome this obstacle by building its own cooperative bank.

(2) When workers vote for members of management and on policy decisions, they are inclined to prefer immediate cash returns for their work over investing those funds in the firm. Mondragon meets this problem with a system, of capital accounts. The capital account is established for a new member as he or she puts up an initiation fee and an initial required financial contribution. The capital account for each member is treated as if it were money loaned by the member to the cooperative. From 1957 to 1964, a fraction of the profits of each cooperative was paid to the members semi-annually in cash with the majority of the profits allocated to the members' capital accounts. At the time of the creation of the first group management of cooperatives, under the name of ULARCO in 1965, cash distribution was eliminated so that all of the profits allocated to members were credited to their capital accounts. Semi-annually members receive interest on their capital accounts, but otherwise the money allocated to those accounts remains with the firm until the member retires or quits.

Since the members' capital accounts remain with the individual cooperative, they can be used as investment funds. The system of capital accounts, has proved of vital importance in the recession when many cooperatives were experiencing substantial financial losses. In a crisis situation, when the cooperative otherwise might have faced bankruptcy and the end of its existence, members were able to vote to have their cooperative dip into their capital accounts. As the cooperative recovered and again was producing profits, the members' capital accounts would once more grow. This social invention has given the Mondragon cooperatives a powerful source of internal financing, enabling the firms to reward members substantially in profitable years and yet preserving the jobs through depleting the accounts in bad times.

(3) *The members natural preference for cash* prevents many cooperatives from putting money into research and development. Even if the cooperative starts with a state-of-the-art technology, in the long run it will not be able to compete with private firms that are investing substantially in research and development.

Mondragon has demonstrated that this is not the inevitable outcome of a worker cooperative structure. From the beginning, the leaders of the movement emphasized improving the technology and work processes. The larger firms and cooperative groups have their own R&D units, and the creation of the applied industrial research cooperative, Ikerlan, in 1975 has given the complex a set of human resources operating on the frontiers of technological research.

(4) What we call "*collective selfishness*" tends to lead profitable worker cooperatives toward policies that ultimately undermine cooperative ownership and control. Even when the operative is started on a purely democratic basis, with every member purchasing one share of stock, as some members leave and the cooperative expands, the members recognize that they can enhance their own economic returns from the firm if they take in new people as hired labor rather than as members. When the original members reach retirement age, they would be happy to sell their shares of stock to fellow workers. But by this time, in a highly profitable cooperative the value of each share of stock in all probability has increased to such an extent that it is beyond the reach of fellow workers. This naturally leads to decisions to sell the firm to private investors.

This scenario could not be played out in the Mondragon cooperative complex. In the first place, there are no shares of stock issued, and so ownership cannot be bought by outsiders. To be sure, members of a profitable cooperative might give in to "*collective selfishness*" simply by taking in new workers as hired laborers, not eligible to participate in the distribution of profits. There are two barriers against such action. Spanish law for worker cooperatives imposes a 10 percent limit on non-members in any cooperative firm. Before this legislation was enacted, the Caja Laboral Popular had imposed its own restrictions in its contract of association subscribed to by each cooperative in the Mondragon complex. One of the clauses of the contract limits non-members to 10 percent of the work force. If an individual cooperative goes beyond this 10 percent limit, the Caja has the right to cancel the contract of association. Such cancellation by the Caja has never happened and is unlikely to occur. So valuable are the services of the Caja in financing at lower than national market rates, and in technical assistance and emergency intervention to reorganize failing cooperatives, that it would be folly for any cooperative to violate the contract.

Organization Structure and Culture

The four points above refer to structural elements that help to explain the survival and growth of the Mondragon cooperatives. These are important, but they are not the whole explanation. We need also to take note of certain organizational elements and of the principal features of the organizational culture of the cooperatives.

Of the four principal organizational elements, two are common to worker cooperatives anywhere and two are creations of Mondragon. The common elements are the Governing council and the Audit Council (sometimes referred to in cooperatives as the Vigilance Council), whose sole responsibility is to check the financial records and adherence to official policies of the cooperative.

One of the new elements is the Management Council made up of the executive officer and the main department or division heads who report to him. These individuals are chosen for four-year terms by the Governing Council, with the possibility of reappointment but without a presumption that this will automatically happen and through a process of evaluation in any case. Worker cooperatives elsewhere may have such a council on an informal basis, but in the Mondragon complex the constitution requires establishment of such a body.

The Social Council is an invention unique to the complex. Whereas members of the Governing Council are elected at large, members of the Social Council are elected to represent particular groups of worker members, according to the nature of their work and work location. The Social Council provides a means for representing the interests of members as workers, whereas the Governing Council can be considered an organization designed to represent the interests of members as owners.

Since all members are also workers, why have two different organizations to represent owner and worker interests? As a member, each individual would like to maximize the long-run financial strength of the cooperatives, while as a worker, he would be more concerned with immediate financial rewards and with the quality of work life. When the individual has to balance these competing interests himself, this necessarily creates ambivalence, and ambivalence is not a good stance from which to make decisions. The invention of the Social Council resolves this ambivalence problem, providing two organizations to deal with the competing interests and needs.

Mondragon is committed to basic values of equality, solidarity, dignity of labor, and participation. Equality means that all members are equal in their voting rights, even though there is a considerable range of status in job classifications. Solidarity means that, insofar as possible, the interests of one group of members is not to be sacrificed for the interests of another group. Similarly no cooperative should take advantage of another cooperative. Participation means not only that all members have the right, but also the obligation to participate in decision making.

Mondragon is committed to the following five objectives: job creation, employment security, human and social development of members, autonomy and self governance and economic progress.

To realize these objectives within the framework of the basic values, the members have developed what we call guiding principles that embody the implicit ground rules according to which leaders and members are supposed to behave.

We find nine guiding principles that fall naturally into three groups of three. One group safeguards *diversity and individual rights*, another group supports *solidarity*, and a third group guides the way *decisions* are supposed to be made.

The *diversity* set includes openness: In principle, the cooperatives are open to membership by anyone with the required skills and training, without regard to ethnic background, religious, political, or any other affiliation. It is estimated that at least 25 percent of the total membership is composed of individuals who were not born and raised in the Basque provinces. The cooperatives are committed to political pluralism. In contrast to worker cooperatives in some other countries (notably Italy and Israel), the Mondragon cooperatives are not linked to any political party and include members of various parties.

To support the participatory rights and obligations of the individual member, the cooperatives provide extraordinary freedom of information. With a bare minimum of restrictions, any information available to management is available upon request to individual members.

The *solidarity* set covers principles applying at three levels. At the first level, we find the principle of size limitation. As a rule, the leaders of the cooperatives have sought to build organizations of the minimum size necessary for manufacturing and marketing efficiency, with the objective of keeping the firms small enough so that their management and governance can be handled by members who know each other. This means that when a firm grows to the size and complexity where it is possible to spin off a new and independent cooperative, that separation is carried out.

At the second level, we observe the principle of the creation of cooperative groups: firms that band together to share general management services, with the aim of securing economies of scale without sacrificing the independence of the individual cooperatives.

At the third level, we find the principle of inter-cooperative complementarity: whenever it can be done without sacrificing the interest of one of the parties to the transaction, Mondragon cooperatives buy from and sell to each other. It was recently estimated in the FAGOR group, which includes the oldest and largest cooperative, 19 percent of the parts and materials purchased came from Mondragon cooperatives.

The set guiding how *decisions* are to be made includes the principle of balance, a principle expressed repeatedly in writing and in discussions with the word *equilibrio*. The word refers to the requirement of achieving a balance between the economic requirements of the firm and the socio-economic interests and needs of individual members, between the technical requirements of the technology and the social interests and needs of the members, and so forth. The same principle applies to relations between the various cooperatives. They do not play zero-sum games in which one unit takes advantage of another. The interests and needs of both units must be weighed and balanced in decision-making.

The founder stressed future orientation, and this has been built into the governance system of the cooperatives with considerable force. The leaders are not to consider satisfactory any current state of affairs; they must always strive toward a better future state.

Finally, the cooperatives place a great emphasis upon organizational self-evaluation. Leaders are encouraged not to limit themselves to discussions and actions on current problems. They are also expected to develop a group process for evaluating the current performance of the organization in order to achieve improvements. This commitment emphasizes a continuing review and evaluation of social structures and processes.

Lessons from Mondragon

To what extent is the Mondragon achievement transferable to other countries and other cultures? Obviously it would be folly to try to duplicate Mondragon, but this rich experience must provide some elements that offer guidance for those dedicated to building their own worker cooperatives elsewhere.

The Mondragon complex emerged out of an evolving educational program which combined technical with social and economic education. That educational program has continued to develop in response to changes in the environment and for the needs of the cooperatives. This suggests that education must play a major role in the development of worker cooperatives anywhere.

The Mondragon financial structuring through capital accounts provides a key to preserving worker ownership and control. Mondragon has created the essential tools for controlling "collective selfishness" and thus avoiding the degeneration of worker ownership.

Building a network of mutually supporting organizations has been essential to Mondragon's success. It is now generally recognized that a worker cooperative isolated in a sea of private firms has a poor prospect for long-run survival and growth. We can hardly expect to build such a tightly integrated network elsewhere, but in various countries we are seeing the emergence of not-for-profit organizations to support the development of worker cooperatives.

Finally, we should stress the importance of building one's own worker cooperative culture. Since the worker cooperative will be a new experience for most of its members, we cannot assume that it will grow and prosper simply on the basis of solving practical problems as they arise. The Mondragon experience suggests the

importance of building a culture within which the discussion of practical problems is linked with a process of organizational reflection and self-evaluation.

Reference

Whyte, William F. and Kathleen K. Whyte (1988, 1991), *Making Mondragon: The Growth and Dynamics of the Worker Cooperative Complex*, Ithaca, NY: ILR Press.

The importance of openness and flexibility, and the ability to adjust to changing conditions

[From the writings of Don Jose Maria Arizmendiarieta, the founder of the Mondragon Cooperatives, as quoted by W.F. and K.K. Whyte in their book Making Mondragon, 1988, 1991]

We must emphasize the fact that the [cooperative] firm is a peculiar entity in permanent process of evolutionary change, and therefore needing the constant attention of its leaders; it must renew and revitalize itself at all times due to the inevitable consequences of the changing technology and economy of our world.

The Importance of Credit and Investment

One cannot think of a vigorous and expanding cooperative movement without its involvement in the field of credit....cooperativism lacking this resource is weak, necessarily fragile, being confined to fields of artisanship, and must live in a small world, in a domestic and modest circle....credit is something like blood, the sap that must invigorate all members of the community.

Our cooperativism must develop itself so that, in relation to availability of capital, technology, and organizational flexibility it does not find itself in an inferior condition....A cooperative must not condemn itself to the sole alternative of self-financing.

The Importance of Education

Don Jose Maria saw cooperatives as being built on a foundation of education, and in turn providing education for economic progress toward a new social order. He defined the cooperative experience as "an economic effort that translates itself into an educational action or...an educational effort that employs economic action as a vehicle for transformation."

The Mondragon Cognitive Framework and Shaping Systems

[The following descriptions and analysis of the Mondragon cooperative complex have been taken from Whyte & Whyte, Making Mondragon, 1988, 1991.]

The cognitive framework is the set of ideas and beliefs about basic values, organizational objectives, and guiding principles that form the foundation of any organization. The shaping systems enable an organizational culture to be maintained or to change. The cognitive framework provides the leaders of the complex with a sense of where they want to go. The shaping systems, tell them, in general, how to get there. Understanding the cognitive framework and shaping systems for the Mondragon cooperative complex is essential to fully understand the way it operates and the reasons for its continuing success. [Whyte & Whyte have identified the following values, objectives and guiding principles as constituting the cognitive framework of the Mondragon cooperatives.]

A. Mondragon's Cognitive Framework

Basic Values. The Mondragon system has four basic values:

1. **Equality:** All human beings should be considered as having been created equal, with equal rights and obligations--and that difference in social class and organizational position should be minimized in interpersonal and organizational relations.
2. **Solidarity:** Members of a given cooperative should rise and fall together; individuals should not gain while others lose.
3. **Dignity of Labor:** There is or should be dignity to any human labor, blue-collar as well as white-collar or managerial work.
4. **Participation:** Members have a right to participate as much as possible in shaping the decisions affecting them. They also have an obligation to participate.

Objectives. Mondragon has five objectives:

1. **Job creation:** The creation of jobs was a primary objective from the very beginning, and the cooperatives retain a strong commitment to it.
2. **Employment security:** Every member in good standing should be able to expect continuous employment up to the age of retirement so long as the cooperatives remain economically viable. Because economic progress necessarily involves eliminating certain jobs and leads to unemployment unless an adequate number of jobs are created at the same time, the commitment to employment security also implies a commitment to job creation.
3. **Human and social development:** Wherever possible, work should be made more humane and the social development of members should be fostered.
4. **Autonomy and self-governance:** The leaders of Mondragon have been committed to developing autonomous and self-governing organizations that are linked together to help in coping with national and international economic conditions.
5. **Economic progress:** While making profits are not the fundamental purpose of the Mondragon cooperatives, the leaders have recognized the need to generate profits or surplus as a limiting condition. Without the strength that comes from financial success, they cannot expect to attain the other objectives.

Guiding Principles. Mondragon has nine guiding principles:

1. **Balance.** Life in a cooperative should not be carried on as if it were a zero-sum game which some win and some lose. There must be a balancing of interests and needs, within the cooperative and among cooperatives.
2. **Future orientation.** Planning must be oriented toward a future well beyond the time when the immediate problem has been solved.
3. **Organizational self-evaluation.** What now exists must never be considered perfect and immutable.
4. **Openness.** Nondiscriminatory in nature, the cooperatives are open to anyone with the requisite skills and training.
5. **Pluralistic political orientation.** Individual members may freely express their own political views and belong to any political party, but the organization itself avoids such commitments.
6. **Freedom of information.** If the members are to make intelligent decisions, they must, as much as is practical, have access to all information relevant to those decision-making rights and responsibilities.
7. **Inter cooperative complementarity.** Individual cooperatives should buy from and sell to one another, except when it is clearly disadvantageous to one of the parties to the transaction.

8. **Formation of cooperative groups.** To achieve economies of scale and to broaden and strengthen solidarity within the movement, it is important for individual cooperatives to join together.
9. **Size limitation.** This principle is based on the assumption that it is difficult for an organization to remain flexible, democratic, and efficient when it grows beyond a certain size. Whenever feasible, a new line of products initiated in one cooperative should lead to the line being spun off to create a new cooperative. The basic values and other guiding principles of the complex provide a general framework for this process: Employment must be maintained, and the equal rights and economic opportunities of the members involved must be upheld. Retaining the new cooperative within the cooperative group ensures the efficiencies of larger scale but also that each cooperative has considerable autonomy.

B. Mondragon's Shaping Systems

[Whyte & Whyte postulate that there are three shaping systems in Mondragon: major policies, structures, and instruments of governance and management. These shaping systems together with the cognitive framework have been melded by the leaders into a distinctive organizational culture.]

Major Policies. Policies regarding the rights and obligations of members are of great importance. Membership is based on labor rather than capital. This is the case for worker cooperatives generally, but the implementation of this policy is of special interest. No stock is issued. The members' initial financial contributions are treated as money loaned to the cooperative.

Members' capital accounts and the policies on distribution of profits to members are key features of the complex. Since 1965 all the surplus allocated to members has gone into their capital accounts rather than being distributed as cash. This policy has contributed enormously to the strength and stability of the cooperatives.

The 10 percent limit on the number of non members in each cooperative is not unique to Mondragon but deserves special emphasis. This limit is imposed not only in the constitutions of the cooperatives but in Spanish legislation.

The policies of job creation and for employment security are mutually reinforcing. In the face of rapidly changing technologies and market conditions, no cooperative can guarantee that it will maintain all of its jobs indefinitely. To remain competitive, the firm must be able to increase output while reducing the number of workers producing any product. Because the cooperatives are not free simply to lay off surplus workers, they are driven to create new cooperatives and expand employment.

Structures for governance and management. Mondragon has created both significant internal structures and a crucially important network of collaborating and supporting organizations. The social council represents members as workers, and are the particular organs involved in applying the principle of organizational self-evaluation.

The grouping of cooperatives under a common general management provides an important means of balancing economic imperatives against social values. The group management has the primary responsibility for maintenance of employment by shifting members among the constituent cooperatives and by creating new cooperatives and new jobs.

Solidarity is further strengthened by the network of organizations that support the cooperatives and that are supported by them. The Caja Laboral Popular is not only a key supporting organization; it also plays a leading role in holding member cooperatives to the basic values and principles developed in the early years. The right of the Caja to cancel the contract of association with any cooperative that violates these values and principles is an essential element in making Mondragon a cooperative complex rather than a loose federation of cooperatives.

Ikerlan has become essential in the process whereby the cooperatives become equipped with new technologies and manufacturing methods necessary for their continued economic viability.

The educational system, beginning with the Escuela Politecnica and strengthened by the development of other educational units, continues to provide the members with knowledge and skills essential to Mondragon's future. Although these institutions do not provide formal courses in the management of cooperatives (as distinguished from

general management courses), their educational programs in the context of the cooperatives and the Mondragon community help to socialize members and potential members to the ways of working in a cooperative.

The financial institution created by Mondragon to support the development of cooperatives is a unique contribution and social invention. The Caja's Entrepreneurial Division can be seen as a set of inventions designed to guide and support collective entrepreneurship.

Instruments of management. Although the Mondragon management system started out by using the Tayloristic system of scientific management, they soon became aware of its weaknesses and limitations. Subsequently, they have been incorporating some of the concepts of worker participation and management by objectives obtained from abroad. The personnel managers in Mondragon cooperatives have gone beyond most US. private firms in developing a leadership role for themselves in working with top executives on organizational design, work redesign, and management development.

The Mondragon Entrepreneurial division of the Caja is using computers and other accounting technologies to closely monitor the financial health of each cooperative in the complex on a monthly basis. When problems are encountered, actions can be taken to correct them.

Mechanisms and Procedures for Incubating new Industrial Cooperatives

[The following excerpt is from a paper by Gary B. Hansen, Using "Cooperative Entrepreneurship" to Generate Employment and Income in Developing Countries and Eastern Europe, Logan: Utah Center for Productivity and Quality of Working Life, Utah State University, May 1993.]

The most important contributions of Father Arizmendi and the Basques to the principles of cooperative entrepreneurship are: recognizing the need for financial and human capital and devising innovative means to obtain them, developing specialized institutions to link the financial and educational components directly to the entrepreneurship process, and correcting some defects in the cooperative capital and ownership structures.

In order to acquire the necessary financial capital to start industrial cooperatives, the Basques established a workers' development bank, the Caja Laboral Popular (CLP), with an entrepreneurial arm called "the Empresarial Division" to systematically create and incubate new businesses. Founded in 1959, the CLP became the heart of the Mondragon cooperative system and by 1986 it was the 26th largest bank in Spain with 164 branches and more than 1000 employees. The CLP obtains the bulk of its financing capability from individual deposits, surplus accounts of member cooperatives, reserves and interest on loans, and investments. Father Arizmendi discovered that under Spanish law a workers' bank could pay interest of one-half percent above the rate other savings institutions offered. Thus, the CLP attracts depositors and uses their savings to finance new and expanding cooperatives. Depositors are pleased to receive higher interest rates in addition to having their savings fund their coops and create jobs in their communities.

The creation of the Empresarial Division in the CLP enabled the bank to function as venture capitalist and creator and incubator of new cooperatives, in short, a cooperative entrepreneur. By the mid-1980s the CLP Empresarial Division had 115 staff members who provided expertise in the complete range of technical and managerial services necessary to start and run businesses. By the end of the 1980s it became an independent institution within the Mondragon cooperative system. The Empresarial Division functions in seven areas: providing advice and consultation, conducting economic and marketing studies--including special studies in agricultural-food promotion and industrial promotion, conducting audits, providing information, and engaging in urban planning and building construction. The Empresarial Division developed a systematic approach for starting new cooperatives which includes the following steps (Whyte & Whyte 1988; Hansen & Hidalgo 1987; Wiener & Oakshott 1987):

1. The industrial promotion unit of the Empresarial Division develops and revises the contents of a "product bank" based on prefeasibility studies of promising markets and a variety of related products within each market.

2. A group of prospective worker-owners wishing to start a new cooperative business approaches the CLP Empresarial Division. If the group has a specific idea for a business in mind, the Empresarial Division considers it. If not, the group can draw on one of the prefeasibility studies in the "product bank."
3. The Empresarial Division conducts a basic screening process using the following criteria: Does trust exist within the group? Are the members committed to cooperative principles? Do they have the necessary skills to start the business? Do they have some sources of funds to finance the idea?
4. The prospective cooperative group nominates a project manager. S/he becomes responsible for the feasibility study. If the group does not have a suitable manager, the Empresarial Division helps them find one.
5. The members of the group put up collateral to cover the loan required to finance the work of the project manager. In some cases an outside organization, such as another industrial cooperative, may put up collateral for the loan. Although this normally covers less than half the costs of the services of the Empresarial Division, it is an important part of the group's commitment to the process of starting a cooperative business. The project manager works under salary with an experienced staff member of the Empresarial Division.
6. The project manager and Empresarial Division staff member, with the Division's assistance, initiate a detailed feasibility study for the proposed new business.
7. If the results of the feasibility study are favorable, a business plan is completed.
8. The business plan is presented to the CLP for consideration. If the plan is approved, the bank provides the necessary capital, and the group members formally organize themselves as a cooperative, sign a Contract of Association, and commit their share of investment--usually about 10-15 percent of the total amount of money required to start the business.
9. Suitable premises are located and the business is started, with continuing advice and assistance from the professional staff of the Empresarial Division during the startup phase.
10. Only 30 percent of the startup losses incurred by the business are charged to current expenses during the startup years. The remaining 70 percent are capitalized and paid off over a subsequent seven-year period. This ensures that the founders do not absorb all the startup costs as losses of their equity, especially when new members come into the firm over time as it becomes profitable and grows.

The Empresarial Division applies three criteria for accepting a new coop proposal:

- (1) confidence in the leadership of the new venture;
- (2) the capital investment required to start the business does not exceed the bank imposed limit;
and
- (3) the cooperative is expected to achieve a break-even point within three to four years.

The planning process for a new cooperative may take up to two years to complete and may be aborted by either party. However, if the cooperative is established, the monitoring, technical and financial support arrangements available through the Empresarial Division provide almost a virtual guarantee of success (Hansen & Hidalgo 1987). Using this approach the Basques were able to organize more than 170 cooperatives providing more than 23,000 jobs, with only one known failure. In recent years the Empresarial Division has been restructured to become more independent of the Caja.

Father Arizmendi and his Basque cooperators recognized the financial weaknesses and limitations of the traditional common ownership form of cooperative as a financial base for modern industrial worker-owned

cooperatives. They realized that worker-members could not benefit from any increase in the capital value of the cooperative. Upon leaving a coop, departing members received only their initial membership fee, which was usually quite small. This inhibited both the ability of the enterprise to generate capital and the members' willingness to expand and take in new members.

The Basques set a much higher membership fee (to be paid in installments over time through payroll deductions) to help raise capital and invented individual internal capital accounts to allow each worker-member to share in both the ownership and growth of the capital asset over time. Part of the cooperative's net income goes into common ownership and part goes into individual ownership. Worker-members receive a share of the capital asset when they retire or leave. Thus, instead of all the cooperative's net income each year going into wages (called patronage dividends), leaving little for capital investment, members are willing to invest more of their cooperative's net income in the business. The incentive to expand the business and take in new members is reinforced, the capital asset base is enlarged, and the cooperative is strengthened financially.

Like Rewi Alley, his Gung Ho counterpart, Father Arizmendi also understood the importance of education to cooperative entrepreneurship and the need for students to gain work experience and receive income as an integral part of their cooperative developmental experience. Technical schools and student industrial cooperatives were organized to provide for these needs. These educational endeavors have been essential elements in the continuing success of Mondragon.

Reasons for Mondragon's Success and Longevity

Wiener and Oakshott concluded from their study of the Mondragon cooperatives that five factors seem to be essential to Mondragon's success:

- (1) quality leadership and management;
- (2) emphasis on technical competence and training;
- (3) commitment which comes from the members' capital stakes;
- (4) mutual support provided through Lagun Aro (the Group's social security institution which was created because cooperatives cannot participate in the Spanish national Social Security System) and in other ways; and
- (5) the Caja Laboral Popular (the Group's banking system) which encompasses the financial and entrepreneurial components of the system (Wiener & Oakshott 1987).

The importance of the educational component to the development and commercial success of the Basque system of cooperative entrepreneurship cannot be overemphasized. This fact has been apparent to most careful observers who have visited and studied this system (Adams & Hansen 1987, 1992), but it is generally overlooked or given a cursory review by those trying to learn from or even use elements of that system to start a new one. The significant role of education is noted by Meek and Woodworth in their recent study of Mondragon's educational system (Meek & Woodworth 1990). They conclude that "over time technical training, business skills and cooperative principles have fused together to become the engine driving Mondragon's organization through decades of remarkable success."

III. Factors Contributing to the Success or Failure of Industrial Cooperatives in Developing Countries.

[Conclusions of studies by Malcolm Harper on factors contributing to the success of industrial cooperatives. Excerpted from the paper by Hansen, op. cit., 1993.]

British scholar Malcolm Harper visited or reviewed data on 13 industrial cooperatives in as many countries for the ILO in 1990. (Harper 1990) He concluded that there were very few bona fide industrial cooperatives in existence in Third World countries. Most of the so-called "industrial producer cooperatives" do not meet the basic definition or criteria of an industrial or worker-owned cooperative. Many of those he looked at turned out to be agricultural, handicraft, marketing or supply cooperatives intended to help their independent producer members

market their products or buy raw materials. There were very few worker-owned joint production cooperatives. He cited the handloom weavers societies of India as typical of the independent producer cooperatives he found.

Of the few cooperatives he studied, Harper found only "modest success achieved by worker cooperatives anywhere, so far." While there did not appear to be a shortage of capital, most of them were plagued by management deficiencies and were unable to use their capital efficiently. Also, many of the cooperatives were interfered with or dominated by government bureaucracies. *The most successful worker-owned cooperatives were those which were free to organize and run their businesses without interference from government, had sufficient management and financial skills, adequate training, and the members possessed personal attributes of entrepreneurship.*

In an earlier study Harper set out the conditions which he believed were important contributors to the success of any industrial cooperative (Harper 1986b):

- ◆ First and foremost, the group must have a leader...There are very few successful groups where one person is not the guiding spirit...[and] with whom outsiders can communicate, and who is respected as the leader by the others.
- ◆ There must be a genuine demand for whatever products or services the group proposes to offer, and this demand should not be based on their [the customers'] sympathy for the producers, or their enthusiasm for worker-co-operation, but on the quality and value of what is offered.
- ◆ The enterprise must be fundamentally viable, without continuing subsidies...The potential revenues must be sufficient to cover the cost of materials and overheads, and to pay a reasonable wage to the members, which is more or less equal to or more than that which they could earn elsewhere. And it must also be capable of generating a surplus for re-investment in future growth.
- ◆ The enterprise must be run in a business-like way...
- ◆ The members must between them have or be able to acquire the skills which are necessary for their enterprise; if they are permanently dependent on outside assistance for some part of the manufacturing process, or for materials, purchasing skills or other aspects of management, they will never become genuinely independent.
- ◆ The motivation of the members and of those who are assisting should be mainly economic. A business, of any kind, is first and foremost an economic institution, and a business which is chiefly a political or ideological statement is unlikely to survive.

IV. Additional Research Findings about Factors Contributing to the Success or Failure of Industrial Cooperatives in Developing Countries

[Research studies carried out by British scholars Abell & Mahoney. This summary of their findings is excerpted from the paper by Hansen, op. cit., 1993.]

Abell and Mahoney made an in-depth, analytical study of industrial "joint production" and "independent producer" types of cooperatives in India, Peru, Senegal and Indonesia. They also studied firsthand the industrial producer cooperative movements (usually rather embryonic) in Ethiopia, Kenya, Botswana, Zambia, and Zimbabwe. Because of the difficulty of separating out cooperatives which were registered as industrial coops but were actually marketing and/or buying agencies utilized by a group of independent producers, Abell and Mahoney included them in their research but did not include any examples in their case studies. They also disaggregated them by types in the presentation of their data. They noted that by limiting their research to include only joint production cooperatives the register of industrial cooperatives, which they compiled to use as a starting point for their study, "in all countries but India the range of co-operatives available for study was very limited indeed."

In their published report Abell and Mahoney (1988) cited *management deficiencies* as the most important weakness of these firms (general financial management, linking financial decisions to market opportunities, stock control, and technical innovation). *Other problems included inappropriate government involvement or interference, a lack of solidarity on the part of the membership, a poor skill mix, operating in isolation or on an ad hoc basis, and "inadequate guidelines for good cooperative practice."* Despite these problems, the conclusions of their study are quite positive about the industrial cooperative form of business organization: "If IPCs [industrial producer cooperatives] perform less well than similar capitalist enterprises it is due to managerial deficiencies, not to an intrinsic weakness of the form" Abell & Mahoney 1988).

In a recently completed study of industrial producer cooperatives in Tanzania, Abell (1990) tested a logistic pattern of cooperative growth and found it dominated the view that the numbers of coops grow because of support organizations. He found that *the factor which limited growth "is the availability of management and, further, that the growth of the competing 'small-scale sector' is at the expense of the cooperative sector. Management nurtured in the cooperative sector moves into the small-scale sector."* Abell concluded that "legitimate and capable management are essential to the success of cooperatives--particularly with technologies which generate production interdependencies." Hence, *there is a critical need for support and promotion organizations that develop and deliver skilled management to the industrial cooperatives and increase its retention within the industrial cooperative sector* (Abell 1990).

In a study he made of industrial cooperatives and their support organizations in Third World countries (Abell 1988), Abell identified several reasons why these cooperatives have not been widely used or successfully promoted. He said: First, "there is a fundamental divergence of interest and attitude between, on the one side, consumer and agricultural (i.e., buying and marketing) co-operatives and, on the other, producer co-operatives." The cooperative movement is not homogeneous, and *an industrial worker-owned cooperative movement cannot be successfully grafted upon an already established and powerful consumer or agricultural cooperative movement.* In most countries there is little understanding of or commitment to worker-owned cooperatives on the part of the agricultural and consumer cooperative sectors. Hence, support for these cooperatives has been lukewarm at best, and resources to promote them are sparse or nonexistent.

V. Factors Contributing to the Success or Failure of Industrial Cooperatives in Industrialized Market-economy Countries

[Conclusions of studies by Cornforth, Quarter, Wilkinson and others who have conducted research on industrial cooperatives in Britain and Canada. This summary of their findings is excerpted from the article by Hansen, op. cit., 1993.]

Cornforth and his Open University colleagues have been conducting research on industrial cooperatives in the U.K. for over a decade. Their findings are generally supportive of industrial cooperatives, but they recognize some *barriers to successful cooperative development in Britain: the need to find and appeal to entrepreneurs, finding financing to augment the limited capital available to the potential worker-owners, recruiting and retaining competent management, and the need to devise effective systems of democratic management and decision making* (Cornforth et al, 1988).

A review of worker cooperatives in Canada by Quarter and Wilkinson (1990) suggests that there was some experimentation in the 1980s to develop models to overcome some of the problems facing worker cooperatives, including most of those identified by Cornforth et al. in the United Kingdom: under capitalization, marketing, management and entrepreneurship, and "connectedness to organized labor."

Vanek, based upon his extensive research on self-managed firms in Yugoslavia and elsewhere, made several recommendations to overcome the problems which he identified as preventing worker cooperatives from being more widely used, i.e., the human, intellectual and cultural causes, and the leadership dilemma (Vanek 1989):

- A. Because, obviously, the dilemma of leadership is the weakest in relatively small firms, it is desirable for this and other reasons to emphasize or at least begin with relatively small firms.
- B. Recommendation A is further strengthened by the empirical fact that the comparative advantage of self-managed over capitalist firms is in small and medium-sized firms.
- C. The essential ingredient of the dilemma of leadership being the cultural and intellectual notion of a person's worth measured by the dollar, the therapy ought to contain a strong educational, ideological or values-changing component.
- D. What we would call the "Iacocca syndrome" (of enormous income differentials) is not so much imputable to supreme intelligence but rather to a certain multi-faceted monopoly of information, experience, education, and power. There must be de-monopolization.
- E. The de-monopolization must assume not only the form of increasing the number of skillful managers and entrepreneurs, but also of socializing the managerial and entrepreneurial roles.

VI. Functions and Importance of Industrial Cooperative Support Organizations (CSOs)

[Findings and conclusions of research studies on CSOs are excerpted from the paper by Hansen, op. cit., 1993]

There are only a handful of studies of the specialized organizations intended to help create and incubate industrial cooperatives--other than those directly associated with the Mondragon and Gung Ho systems as discussed above. However, some recent efforts have been undertaken to evaluate the role of support organizations (CSOs) in Britain by Cornforth (Cornforth & Lewis, 1985), and by Abell (Abell, 1988) who evaluated their role in developing countries. In addition to these efforts, one article has been written about the Wales Co-operative Development and Training Centre (WCDTC) (Blyton, 1989), a doctoral dissertation has been written on CSOs in the U.S. (Dickstein, 1986), and some references made to the support role of the Lega federation in Italy by Holmstrom (1989).

Experience of CSOs in Britain.

Based upon the 1984 survey by Cornforth and Lewis and subsequent reflection, Cornforth and his Open University colleagues concluded that the decentralized CSO network in Britain has a number of strengths and a number of weaknesses.

CSO Strengths: Local availability of support and services is essential to small cooperatives, which need frequent assistance and continuing contact with developers. Equally important is the availability of knowledge of local markets and conditions.

CSO Weaknesses: **First**, the overemphasis on job creation among disadvantaged groups, coupled with a lack of financial resources to start new enterprises--which leads to the creation of very-small labor intensive cooperatives. As a result the cooperative sector has, in their judgment, remained weak and unintegrated in Britain. **Second**, the dispersion and lack of focus among the cooperatives prevented any joint ventures and inter-cooperative trading. **Third**, small local CSOs were able to provide only limited general advisory assistance and lacked the resources to provide specialist services needed by larger cooperatives. **Fourth**, the loan funds were small and able to support the funding of only very small businesses. Other problems include the lack of training available both for the CSOs and cooperators themselves, and the inadequacies in the sharing of knowledge and information among CSOs (Cornforth et al. 1988, 191).

VII. CSO Constraints on Implementing Successful Industrial Cooperative Development Projects in Developing Countries

[Findings and conclusions of research studies on the role of CSOs in developing countries. Research was conducted by British sociologist Peter Abell. This summary of his findings is excerpted from the paper by Hansen, op. cit., 1993.]

In his study of cooperative support organizations in developing countries, Abell identified some of the major constraints to the growth of an industrial cooperative sector. He concluded that "*an established consumer/'agricultural' movement will not provide fertile ground upon which to encourage the growth of an IPC [Industrial Producer Cooperative] sector.*" Abell believes that a failure to understand this fact has contributed substantially to the lack of growth and success of worker-cooperatives in developing countries. Abell's case is persuasive and must be addressed if a program using cooperative entrepreneurship for enterprise development is to be successfully launched and sustained over time.

The failure of industrial cooperatives to flourish in developing countries is largely a result of the existing approach to their promotion and development, which has been linked to and dominated by the consumer and agricultural cooperative movements:

First, traditional consumer and agricultural movements have little incentive to promote an industrial cooperative sector.

Second, a co-operative banking system or thrift and credit societies will "inevitably reflect the interests of the strong and powerful sectors of the co-operative movement" which do not include the industrial cooperative sector, hence the banking sector will not promote the interests of industrial cooperatives.

Third, government cooperative departments "are ill suited to promote and maintain co-operatives of any sort."

Fourth, government sponsored cooperative unions and apexes "are, on balance, detrimental to co-operative development."

Fifth, the problems associated with promoting and maintaining a flourishing industrial cooperative sector are sufficiently different from those of promoting other small-scale industries that grafting technical assistance services for industrial cooperatives on an established small business advisory organization "is not likely to maximize the growth potential of an IPC sector."

Sixth, "any promotion and support organisation should be geared to the provision of 'supervised credit'" and should have established links with the commercial banking system.

Seventh, "the specialized skills needed to operate an IPC are not imparted by the standard co-operative education which is almost invariably directed towards other sorts of societies." Specialized courses and sections are needed to teach the fundamentals of worker cooperation. Existing cooperative colleges have little incentive to move in this direction.

Eighth, "co-operative law is usually formulated with the structure of agricultural (marketing and buying) consumer and credit co-operatives in mind. In this respect the statutes are often not best designed to promote or sustain IPCs." (Abell 1988, 117-122)

[It should also be noted that in virtually all countries small-scale enterprise advisory services and entrepreneurship training programs are geared to the needs and interests of individual entrepreneurs and the traditional forms of business ownership in the small business sector. The management personnel and advisors employed in these agencies do not understand nor are they adequately prepared to address the special needs of CEED-based workers' cooperatives.]

VIII. Some Suggested Guidelines for organizing Industrial Cooperatives in Rural Areas of Developing Countries

[From J.B. Taylor, Organization of Industrial Cooperatives, 1947. This book, which was published in Bombay, was written by Taylor using his experience with the Gung Ho movement in China and applying those ideas to the promotion of industrial cooperatives in India.]

The Promotional Agency:

The promotional body must have a wide knowledge of [industrial] cooperative objectives and achievements; it must be able to anticipate the educational needs of the societies and appreciate the necessity for supplying business and technical services as the members have no means of securing or providing for themselves. But it must equally possess the shrewd business sense to distinguish what can be done at once from what must be deferred to a second or third step. Simple beginnings can be made immediately. Tentative action in specific local situations is one of the most important ways of testing what is ready for application and what is not. It is a step in experimentation and shaping of policy. Thus the agency or group planning to launch a movement to organize industrial cooperatives must plan the modest work to be done at once and move step by step towards the many sided accomplishment of the future.

[Taylor then attempts to "codify existing experience and the rules for action to which it leads."]

A. Scale and area of operations.

Practical Rules

1. Quality first. The basis of successful effort is the realization that quality is more, much more important than quantity. Good societies are like good seed: they reproduce their kind and are the essential foundation of a movement which is a living growth and only at a later stage can become a means of mass production. This limits activity to that for which there are thoroughly competent staff and for which it is able to secure adequate capital.

2. Intensive Developments in Selected areas has the following advantages:

- (1) Effort is expended where, if the choice is right, it will meet with the largest response;
- (2) Concentration of staff in a limited area means close contact between the few experienced leaders and the younger recruits; experience can be readily shared and comradeship developed. An area of concentrated developments gives scope for specialized technicians.
- (3) Such concentration greatly simplifies the work and reduces the expense of supervision.
- (4) It facilitates the growth, among the cooperators in the individual societies, of conscious membership in a larger body and facilitates the federation of societies, making that wider membership a reality.
- (5) The more successful of these areas can be used for the practical training of new staff, and as the laboratories of the movement where technical and business problems can best be solved in vital contact with the needs of growing cooperatives communities. The value of this can hardly be exaggerated.

3. Selection of Areas: Expansion of the movement occurs by the growth of societies in the selected area and by the expansion of the area or the adopting of new ones.

- (1) The choice of an area in a region entered for the first time will depend on such factors as the convenience of its communications and the typical character of its economic opportunities on the one hand, and the responsiveness of groups of workers or villagers, their willingness to accept the

leadership of the promotional agency, and their actual and potential industrial capacity, on the other.

- (2) The ability of the agency to make a choice therefore depends on preliminary and industrial studies and intimate contacts, with groups of workers or peasants.

4. New Areas

- (1) The new areas should be chosen in close enough proximity to the parent area to facilitate the inclusion of a group of them in a district or regional federation. As far as possible the larger groupings should coincide with natural economic regions having similar resources and easy communications.
- (2) The staff which is sent to these new areas should have gained experience in the parent area, so that relations with it will be a natural development.
- (3) The further condition required for initiating work in a new region or other distant area, especially in another province, is that there is enough popular and official interest there to make possible a new promotional agency. There should of course be as much consultation and collaboration between this agency and the earlier one as possible.

[It is important to note that Taylor did not discuss the details of how to organize new cooperatives where no pre-existing businesses existed -- which was the primary way industrial cooperatives were organized both by Indusco in China and Mondragon in Spain. Consequently, he did not address or discuss the important steps of identifying a business concept or idea suitable to the locality or region, recruiting of potential cooperative entrepreneurs, carrying out the process of business planning, obtaining financing, and assessing business incubation needs -- all important elements of a business startup. Taylor only discussed what he called the tests of suitability for registration -- which could be applied to those groups or businesses already in existence.]

B. Conditions Justifying Registration

It is well to tabulate simple tests by which to decide whether a given group has reached a point at which it should be helped to register as a cooperative society. In addition to starting new cooperatives, one possibility is to look for groups which are already engaged in some business which has an assured future and of which the agency has competent technical knowledge and with a programme for its improvement.

[Taylor favored the idea of introducing a period of apprenticeship as a preliminary step before actually registering a society, but indicates that there are practical difficulties in the way of doing this.] Societies enjoy privileges under the cooperative law and before they are duly registered they find it very difficult to secure adequate funds....In these circumstances it seems desirable for the promoters to proceed in two steps.

[First, In order to facilitate the process of generating industrial cooperatives, Taylor advocated working with existing groups and converting them to workers' cooperatives.] At least in the early years they will begin by looking for groups which are already engaged in some business which has an assured future and of which the agency has competent technical knowledge and with a programme for its improvement. It is less difficult to begin with an existing group than start a cooperative by forming a new group not fully familiar with the work to be done. The improvements first introduced will be improvements in work with which they are already familiar. As we have seen they first satisfy themselves that the group is composed of men capable of working together cooperatively and of making a success of the business and then begin an educational process. The question now is how far must this process be carried before the promoters can safely apply for registration?

It is not necessary that the group can be left entirely to its own resources. It will continue to need technical and business advice in order that it may grow progressively stronger and the agency must be prepared to continue to help it. It is necessary to have confidence that the society with the agency's guidance, will be able to achieve success.

Tests of Suitability [For Registration]

1. *Industrial:* That the line of production or service proposed

- (1) is socially desirable and especially that it
 - (i) will cheapen goods or services entering into desirable working class standards of living; and
 - (ii) will enable competent workers to earn a satisfactory livelihood;
- (2) That a carefully prepared budget with estimates of capital requirements and working expenses shows that the plan is within the abilities of the society with the assistance of available promotional capital to finance;
- (3) That the promoters are competent to furnish technical guidance and to effect improvement in processes and equipment, or to assist in adapting production to changes in demand, to reach the best sources of supply of raw materials and the best markets for finished goods, so far as forecasts can be made.

2. *The composition and ability of the group.*

- (1) That the result of discussions and personal contacts gives evidence that the group
 - (i) has acquired enough of the team spirit,
 - (ii) is composed of, or contains men intelligent and with character enough to handle the affairs of the proposed society,
 - (iii) has its own natural leaders, and
 - (iv) has men, whether introduced by the agency or by itself, who can occupy key positions such as those of manager, accountant, and sales and purchasing agency, and that
 - (v) they can collaborate harmoniously with the board of management; and that
 - (vi) A good board of management exists.

3. *That the draft constitution to be submitted to the registrar*

- (1) is satisfactory, and that
- (2) its main provisions, especially those as to membership and its responsibility, the distribution of the profits, and the members' contribution to share capital are clearly understood by the board of managers and the officers.
- (3) That the members are ready to contribute to the best of their ability to the funds and to bear the responsibilities of active membership.

4. *Understanding of the principles and practices of cooperation.*

- (1) That the members generally have
 - (i) come to understand the general conception of cooperation as studied in concrete examples, and
 - (ii) have conducted their work and discussions as a group in accordance with cooperative principles.
- (2) That they are sincere in their desire to go forward to a fuller grasp of cooperative principles and the application of cooperative administrative methods.

C. The temporary period of tutelage following registration.

The writer's personal preference [is] for such arrangements as would allow the experimental organization of a group on a cooperative basis, but without registering, and with the organizer or promotional officer (or district secretary as he is now called by Indusco) having the right to attend general meetings of a society, its committee of management, and sub-committee or department of finance, or to appoint one of his staff to do this. The representative of the agency would have the right to present the agreed views of the agency as a contribution to discussion and to veto immediate action deemed to be contrary to this until the view of the district secretary could be secured. In all other respect the society would be fully cooperative and autonomous.

[Because he thought there were practical difficulties involved in following the course he preferred, Taylor proposed another course: that there be a probationary period *after* registration or application for registration which the cooperative would undergo.]

To recognize the need for careful guidance in the early stages, it is suggested that any group whether pre-registration or post-registration which receives promotional capital from the agency should agree as follows:

1. That as means to a more certain and rapid growth in the knowledge of cooperation and the ability to manage its affairs, the society accept a measure of tutelage from the agency for a period of three to twelve months from the receipt of promotional capital.
2. That the tutelage shall be exercised through the acceptance of regular educational and advisory service and in particular by allowing a representative of the agency to sit on the board of management and its finance and other committees with the privilege of laying before them the accepted views of the agency as a contribution to discussion and with the right to defer the execution of any decision which seems to offend against cooperative principles until it has been possible to submit the matter to the District Officer, whose opinion shall be final.

D. Education for Full Autonomy.

But the purpose of the agency must be to enable the society to exercise full autonomy at the earliest possible moment. The members must therefore be taught:

1. That while they may receive expert advice from the agency or the federation to which they belong, they are themselves responsible
 - (1) for deciding the larger questions that arise in general meeting, each member exercising his right to vote and his duty to contribute what he can to the discussion;
 - (2) for appointing directors and supervisors, understanding the qualities required for these positions and choosing those best qualified;
 - (3) avoiding the growth of factions and practicing loyalty to the society and its constitutional decisions.

While full recognition is given to special ability and loyal support is accorded to the officers, the rank and file must be encouraged to play their full part insisting on regular frequent reports from the directors and doing their best to understand all that pertains to the success of the society. Only united purpose and mutual encouragement can achieve this. Among other things the whole body of members should be helped

- (4) to understand the importance of good accounts and other records and the significance of the annual balance sheet and the main provisions in the constitution.

All this means line upon line and precept upon precept. One has to be realistic and recognize the limitations imposed by illiteracy and the narrow range of experience of many villagers and workers. But it is equally essential to be alive to the latent possibilities of the "common man."

What has been urged above is, in effect, to learn cooperation by practicing it. This undoubtedly is the heart of the matter. But it is helped by drawing on the experience of others who have pioneered one phase or another of the movement.

The Ideal [Industrial Cooperative] Organizer

The promoter must have conviction as to the value of cooperation both as a method of economic organization and as a social ideal and way of life. Without these he is out of place in a cooperative agency and will be handicapped at every turn. An initial knowledge of cooperative practice is the basis of his collaboration with his colleagues, and the cooperative spirit is necessary to true team work and to the right attitude to the cooperative members. It is also the source of the enthusiasm necessary for leadership.

The true organizer realizes that in this pioneer venture he must be learning by his own experience and that of his colleagues and familiarizing himself with subjects relating to this work during his whole career. Consequently, he takes eager advantage of all opportunities for study and conference so long as these do not distract him from his work but help him in it. He is aware both of the importance of education for the cooperators, and of the latent capacity of illiterate workers and farmers, some of whom rank high in native intelligence and character. His task is

to develop these by the methods of a true educator making his approach largely that of the teacher of some practical subject.

His professional competence and his real concern for the progress of the cooperators are the twin supports of his success. Competence involves an all round knowledge of the cooperation and of the business involved, and of the technical aspects of the work done. The demands the societies make will grow more exacting as the movement develops and so the organizer who is to be permanently useful must always keep ahead of his members. As he gains in experience he will find out in what direction his gifts lie; one man's in general administration, another's in some technical field, a third in education and promotion, and so on, and he will seek to make himself specially qualified along the line of his ability.

Practical Points for the Organizer

(1) Cooperation: The following rules must be constantly borne in mind;

- i. to understand thoroughly, the provisions of the constitution and the reasons for them.
- ii. To find out the best way of explaining the constitution, step by step, to the cooperators, using the experiences and difficulties met with as the standing point.
- iii. Not to presume on the fact that his education is higher than that of most cooperators. The latter may be his equals in intelligence and in the capacity to handle practical affairs.
- iv. To take care not to be angry if his advice is not immediately followed. He is the leader and not the boss. He and the cooperators are a team. His success is measured by the confidence and loyalty he inspires.

(2) Technical Matters:

- i. The organizer must know what is good practice in the industries followed by the societies he is helping.
- ii. He must be quick to see if any society or worker falls below a reasonable standard and if possible, fit himself to demonstrate it. In other words he must be able to judge the standard of industrial efficiency reached, to detect weakness and be able to correct them.
- iii. He must be ready to consult an expert when he finds himself unable to deal with any particular difficulty and if necessary to arrange for the visit of an expert.

(3) Business Matters:

- i. The organizer must be business-like himself and keep records and make reports.
- ii. He must be at home in the accounting and cost accounting needed by his societies; and must teach the members how to use them to determine their financial position and industrial efficiency.
- iii. He must be in touch with local businessmen and know whether the societies are buying and marketing efficiently.

The Need for Federations of Industrial Cooperatives

(a) Single Trade Associations. We begin by considering the relations between industrial societies which have this in common: that they are concerned with the provision or use of an important industrial commodity or class of commodities--such as wood, or iron and steel, or leather, or a textile fibre such as cotton or wool.

Our suggestion is that provincial or better an All India body should be set up to bring into focus all the different cooperative activities with major trade groups and to secure expert guidance for the improvement of the separate branches of it. This will bring about the fullest development of industrial cooperation. So far we have considered matters mainly from the point of view of the primary societies with which the organizers have most to do. But from the technical angle the progress of one section of a trade may depend on the improvement in another. A body with a wide outlook can make the best use of the expert and help build up related industries on the most progressive lines.

(b) Unions of Different types of Industrial Cooperatives. On the other hand the experience of Indusco points to the value of a local union embracing all the industrial cooperatives of its area. This was a case where all the societies were promoted by the same agency and this made federation easy. The federation took over functions the agency had previously made itself responsible for; and often also the junior staff which the agency had used. In

one of the best Indusco areas all the staff were absorbed and supported by the federation with the sole exception of the district secretary. This kind of absorption is the goal at which promotional agencies should aim.

The business departments of the federations thus developed have been for credit, on the one hand, and supply and marketing, on the other. Indusco had promotional capital, partly from the Chinese government and partly from overseas sympathizers. This was, of course, very important since the capital needs per member of workshop cooperatives are high. The supply and marketing departments had stores near their headquarters.

A third department of the local union was of great social value to the cooperators. This was the welfare department. The societies usually set aside 10 percent of profits for the common good fund and pooled the amounts through the welfare department of the union. This meant that medical and educational services of a much higher grade than could otherwise have been provided were available to the members and their families. The Indusco coops were often pioneers of better living in isolated parts of China.

The need for non-official agencies to promote Industrial Cooperatives

It is essential to stimulate public interest and organize non-official promotional agencies. Such success as the Chinese Industrial Cooperatives have enjoyed has been due to quality of the agency fostering them. It was non-official but with government approval and support. It is by helping such bodies that government can best aid the movement, in addition to fulfilling its own essential duties of law-making, and being responsible for seeing that the law, including in particular part referring to audit, is duly carried out. These duties can, and it is desirable that they should, be dissociated from the other types of assistance concerned with promotion. It is for the latter that non-official agencies are necessary.

IX. A Concluding Note

The research studies and experience cited above, particularly that provided by Indusco and Mondragon, demonstrate that workers' industrial cooperatives are an effective, practical mechanism to generate employment, income and new businesses enterprises in both developing and industrialized countries--if properly organized and effectively promoted. It is also clear that isolated, piecemeal, and traditional approaches used to organize workers' industrial cooperatives will not work, except to generate weak, marginal cooperatives with little employment and income potential. To put it another way, history shows that the use of a unique kind of "cooperative entrepreneurship" is necessary to achieve critical mass and long term success in job and enterprise creation based on workers' cooperatives. The essential elements needed for successful cooperative entrepreneurship include: a suitable workers' cooperative business model, a mechanism for institutionalizing entrepreneurship, a linked financial institution, a linked educational program, a coherent set of values, goals and objectives, a framework for creating and maintaining a cooperative federation or system, and a plan for implementation.

Given the demonstrable fact that workers' industrial cooperatives, if properly structured and systematically organized by specially trained entrepreneurial teams (supported by their linked financial and educational institutions), can make a significant and positive contribution to the economies and lives of people in many countries with diverse economies and cultures, it is surprising that they have not been used more widely as a component of national and local economic development strategies and programs. The challenge for professionals and others concerned with economic development and employment creation is to carefully study the Indusco and Mondragon experiences, and to develop innovative models of cooperative entrepreneurship which will be effective in meeting the unemployment and development challenges presented today and in the future.

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