

## COMPENSATION, EQUITY, AND INDUSTRIAL DEMOCRACY IN THE MONDRAGON COOPERATIVES

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### INTRODUCTION

This paper describes the most important characteristics of the compensation system of the "Mondragón Cooperatives" located in the Province of Guipúzcoa (Basque Country), Spain.

The Mondragón Cooperatives are a group of industrial firms, service organizations, educational institutions (including a technical school and a research and development centre), and a consumers' cooperative which form a complex by virtue of their membership in the *Caja Laboral Popular*. *Caja Laboral* is a credit cooperative extending throughout the Basque provinces which acts as a bank, resource centre, adviser and controller for member organizations. By the end of 1976, the complex had close to one hundred organizations, 65 of which were industrial and service firms employing 14,665 workers (about 10% of the working population of the Province of Guipúzcoa).

The complex has had an exponential growth in the 21 years of its existence, starting with a small firm of 23 workers in 1956. The catalyst for this development was José María Arizmendi, a local priest and teacher who encouraged five of his disciples to open a collectively-owned, self-managed firm. Today, all member firms are characterized by collective ownership and democratic election of all ruling and executive bodies through one-member-one-vote. A General Assembly of Workers elects the Workers' Council which appoints management and joins with it to form the Directive Council, the highest executive body in the firm. A worker-elected Social Council has advisory capacity over the Directive Council and the Workers' Council; an elected Vigilance Council acts as auditor.

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The assertion that an adequate, workable, and equitable compensation is of outmost importance for the functioning of a firm is a truism. The firms of the Mondragón complex have had to develop a compensation system consistent with the needs of collective ownership and self-management. The result has been a unique system which is tightly interwoven with other aspects of the firms' functioning.

### GENERAL FEATURES

The compensation system of the "Mondragon Cooperatives" is made operant and supported by: 1) An institutional foundation which establishes the principles and norms for terms of relationship between the members and the firm and permits stating clear compensation goals, 2) A formalized job evaluation to attach value to each job and set the accepted differentials among jobs, and 3) A mechanism for the expression of collective preferences on some matters related to compensation arrangements.

The institutional premises and the compensation goals are written in the Statutes<sup>1)</sup> and accompanied by supporting measures in the by-laws. The premises are: the collective property of the firms, the indivisibility of fixed capital, the valuation of labour in the same terms as capital, the principle of variable returns for labour and fixed return to capital, and the conception of work as an individual right (to be extended to others) but as a collective task to be realized by a community. The compensation goals are: the achievement of internal equity (internal solidarity) through the one-to-three salary differential, solidarity with workers of non-cooperative firms, preference for collective promotion over individual promotion, and the principle of «open door» to successive generations of workers. These goals are supposed to be reached through the formalized rules governing the terms of entry, the determination of the monetary returns, the distribution of the surplus or loss, and the savings of the community.

Job evaluation procedures provide an infrastructure which permits the implementation of the goal of internal equity.

At institutional level, the Social Council<sup>2)</sup> is a mechanism for participation in a range of issues related to compensation matters. At individual level, there are procedures established for the solution of individual grievances.

The traditional concepts of wage and salary can not be used as such because the members of the cooperatives are worker-owners and, therefore, do not receive wages or salaries proper since they do not

1) The internal functioning of the Mondragón Cooperatives is ruled by the Statutes and By-laws. The Statutes establish the general norms and principles and the By-laws establish the specific measures and ways to implement the Statutes.

2) The Social Council is elected among the members who work in the same work-unit, e. g., department, section, workshop, etc. There is one representative elected for every 10-30 members (depending on the size of the firm) with the restriction that the Social Council of any firm should not have more than 60 representatives. The Workers' Council and the Vigilance Council are elected at the General Assembly of members. The Social Council is elected at the work place.

sell their labour in the market but rather receive a return-for-labour (*retorno laboral*) based on the firm's ability to pay, the number of hours worked, and other compensable factors.

The returns-for-labour (called simply "returns") can be computed only when the net income of the firm is known at the end of the fiscal term (one year). For practical reasons, however, a monthly advance which is similar to a salary is given to each worker-member. This advance is called *anticipo*, a term which will be used in the remainder of the paper because it defines the nature of the payment; there really is no equivalent term in English. There are differences between returns and *anticipos* which can be illustrated by looking at the characteristics of the compensation system.

First, the returns are directly related to the economic performance of the firm and, therefore, to the members' productivity and management. Returns are larger than *anticipos* when firm has a surplus. If the firm breaks even, the returns are equal to the *anticipos*; if there are losses (especially consecutive losses) the returns can be smaller than the *anticipos*. The second characteristic is a corollary of the first since, due to the flexibility of the returns, these can not be regarded as fixed costs to the firm. The motivational force of this flexibility has been summarized by one of the founders:

"Each member knows that when the cooperative makes money he or she makes money and, conversely, when the cooperative loses he or she loses." Alfonso Gorroñoigoitia, 1975 (interview).

The third characteristic is the relationship of the returns to the capitalization of the surplus (*retorno cooperativo*), which makes their returns greater than their *anticipos*, is retained in the firm according to specified criteria and is not given in cash until retirement. The cooperatives have been able to finance their expansion by retaining these earnings of their members, which are credited to them as individuals but remain in the firm to increase the social capital.

The fourth characteristic is a high degree of formalization.<sup>3)</sup> From the rules to determine the *anticipos* to the mathematical coefficient used to distribute the surplus or loss among the members, the system is completely formalized. This formalization is further extended to determine the compensable factors, to establish job classes and categories and to set the maximum spread allowable between the lower and higher paid jobs. Formalization permits the fifth characteristic of this system, which is the complete openness of information regarding all compensation matters — such as criteria and procedures to classify and attach money value to each job, the actual money compensation for all jobs, etc. Members can disagree with the values attached to their jobs and open a procedure for change.

Finally, the problems of internal equity and external solidarity with non-cooperative firms receive *sui generis* treatment. Internal

3) «Formalization» means the specification in written form of all important policies and regulations of the compensation system, including step-by-step procedures.

equity is bound by a one-to-three maximum differential the highest and lowest *anticipo*. This is not based on any external criteria, but on tradition and as a sign of solidarity among workers of the same firm. External equity is bound by a principle of solidarity between the cooperatives and the other firms in the area. Both for ideological reasons (solidarity with the Labour Movement) and practical ones (disturbing the wage levels of the zone, producing invidious comparisons among cooperative workers and those of non-cooperative firms) the *anticipos* of the lowest paid workers in the cooperatives are computed relative to salaries paid to comparable workers in other firms. At ULARCO,<sup>4</sup> for instance, the lowest paid jobs are computed on the basis of the median of the wages and salaries of similar jobs in the two largest non-cooperative firms of the area. (All examples provided in this paper are the actual practice at ULARCO; other cooperatives use the same procedures). This ensures that the lowest *anticipos* in the cooperatives are not lower than those of similar workers in non-cooperative firms. However, the narrow spread in the cooperatives determines that the *anticipos* of higher levels, especially executive ones, are lower than those paid for similar jobs in other firms.

#### JOB INDICES AND JOB LEVELS<sup>5</sup>

Job evaluation is the basis for assessing the worth of each job and for setting the actual differentials among jobs. A unique development at the cooperatives is the use of a single job evaluation manual for all jobs within a firm (or even across several firms as is the case at ULARCO). This permits two things: First, use of the same criteria to assess different types of jobs and produce a single scale from the lowest to the highest paid jobs. A single scale is a necessity if the *anticipos* for all levels are to be derived from those computed for the lowest paid jobs. Second, it permits binding all jobs within the one-to-three differential. Technically, it is possible to do both using the Point System of job evaluation. The criteria chosen to evaluate all jobs in the Point System of job evaluation. The criteria chosen to evaluate all jobs in the cooperatives are: decisions, direction, effort, experience, relations, and theoretical knowledge. Each criteria is weighted in terms of its importance for evaluating jobs and then assigned a range of points (from minimum to maximum). Each job is

<sup>4</sup> ULARCO is an intercooperative agreement linking six firms (1976). The firms are those which were formed by the fission of the first cooperative ULGOR. Since it is a policy of the cooperative complex to promote small and medium-size firms, whenever possible a firm which has grown too large (e. g., over 900 members) is split into two. The different sections of the original Ulgor are now autonomous firms united by ULARCO. Through this agreement, the firms pool their resources and jointly plan their management and activities. They support a central office which coordinates and plans for the future. The surplus, for instance, is distributed on the basis of the performance of all member-firms of ULARCO.

<sup>5</sup> For purposes of compensation it is a standard practice in most firms to group jobs into classes or "pay grades". Firms have to decide on the pay levels of the grades which can be above, equal to, or below the pay levels of other firms in their areas. The cooperatives have no pay grades proper because the only pay level they compare with external wages and salaries is that corresponding to the lowest paid jobs. They compare their "job levels" with the pay grades of non-cooperative firms to know the relative differences in pay but not to increase the *anticipos* of higher levels. The term job levels refers to groups of jobs which are used mostly for promotions and for comparison purposes.

checked against these criteria and all the points corresponding to it are added to produce a total score. This score is called "structural index." The structural indices of jobs can fall between the minima (1.00) and the maxima (3.00). Each point is assigned money value by dividing the money value of index 1.00 by 100.

Within the single scale, jobs are grouped into classes (pay levels or pay grades) in order to determine boundaries for promotions and to carry out comparative studies with job classes, or levels, of non-cooperative firms. The criteria for considerations of complexity and demands of different jobs.

There are six job levels which cover a range of indices.

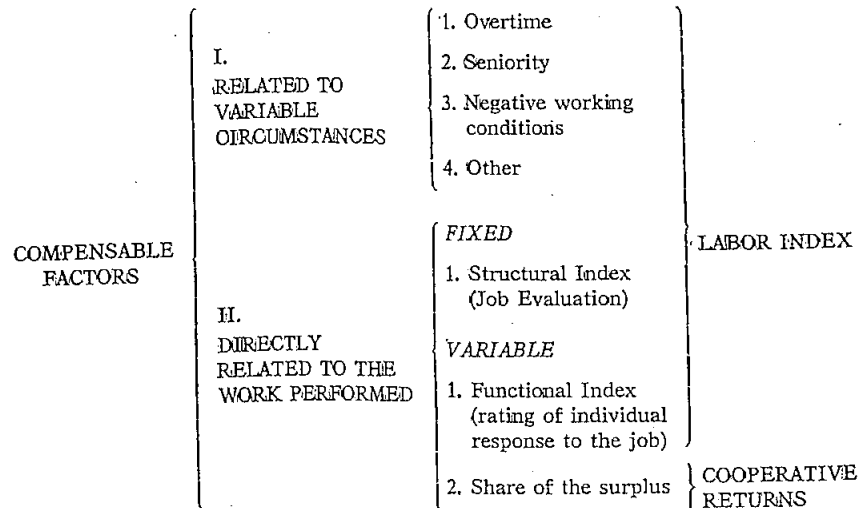
Levels	Indices
Level 1: Specialists (laborers and aides)	1.00 to 1.40
Level 2: Professionals (Skilled workers and first line supervisors)	1.41 to 1.59
Level 3: Intermediate Executives and Technicians	1.60 to 1.89
Level 4: High Executives and Engineers	1.90 to 2.19
Level 5: Top Executives and Engineers	2.20 to 2.49
Level 6: Directors	2.50 to 3.00 (normally not subject to job evaluation)

Under unusual circumstances, someone could be hired in a special category and paid rates above those given to Level 6.

The structural index is one of the factors in terms of which the worker-members are compensated. The compensation is based on two types of factors which they call "compensation concepts" (*conceptos retributivos*): The first includes all aspects which derive from special or variable<sup>6</sup> circumstances, the second includes all aspects directly pertaining to the work performed (see Figure 1).

<sup>6</sup> In many non-cooperative firms these variable factors are often thought of as fringe benefits. In the cooperatives there can not be fringe benefits for the worker-members who can not be compensated for nonwork. The beneficiaries of fringe benefits are residents of the community in which the cooperative firm is located because they have access to the recreational, educative, and health facilities provided for the members of the cooperatives.

FIGURE 1



Factors related to variable circumstances are: overtime, night work, work in shifts, seniority negative working conditions, and others. Factors directly related to the work performed can be fixed or variable. The fixed component is the structural index yielded by job evaluation. The variable component includes a supervisory rating called a "functional index" and a share of the surplus called "cooperative return." The sum of the structural index, the supervisory rating, and the plus for negative conditions yield a "labour index" for each worker-member. The labour index determines the total compensation of each individual and it is given in cash after deducting social security payments. The cooperative returns are retained in the firm.

#### ANTICIPOS: DEFINITION AND CHARACTERISTICS

There are two types of advances or *anticipos*: total *anticipos* and consumption *anticipos*. Consumption *anticipos* are equal to the money wage or take-home pay of non-cooperative firms and they result from subtracting social security payments from the sum of total *anticipos* and variable factors (excluding the share of the surplus).

*Anticipos* are computed twice a year, in January and July. The Workers Council nominates a commission to carry out the work on the basis of a comparative study of the median wages and salaries of the zone (according to levels) with the *anticipos* in the cooperatives. This comparative study yields information to compute the hourly rate of index 1.00. Hourly rates are computed because the compensation is

based solely on the number of hours worked, piece-rates and similar arrangements not being employed. The Commission determines a weighted median hourly rate for index one, taking into consideration the types of activity included, work-day, qualifications, overtime rates, bonuses, workmen's compensation premiums, seniority, payments for social security and any other relevant items in the two largest non-cooperative firms of the zone. The cooperative is supposed to provide equivalent benefits for its members.

The median hourly rate is computed for the total *anticipos*. The total *anticipo* (AT) — whether it is computed on hourly, monthly, or yearly bases — is made up of two parts: 1) the consumption *anticipo* (AC) and 2) the social security *anticipo* (AP)

$$AT = AC + AP$$

The social security *anticipo* at the cooperatives is a premium paid by the members for social security and retirement benefits as well as health and other insurances. It is included with the *anticipos* because, under Spanish law, members of cooperatives are considered independent workers and must provide their own social security (they are excluded from the State's system). All matters of social security, health and other insurances (e.g. disability, unemployment compensation, etc.) are handled by the Social Security Mutual, called Lagun-Aro, which is a «second degree» or supporting-cooperative. The cost of social security is very high, varying between 20% and 32% of the total *anticipos* (depending on the job level). Since the population which works at the cooperatives is young there is no problem handing retirement costs. However, as the number of retired members increases, a growing financial drain will become problematic for the cooperatives. Anticipating this, in 1976 the cooperatives were considering joining with the State's Social Security System in order to spread the costs over a larger population.

The social security *anticipo* is made of two parts: 1) a fixed fee (Cf) and 2) a variable fee (Cv)

$$AP = Cf + Cv$$

where

$$Cv = \%CC$$

The fixed fee is set by the Social Security Mutual (Lagun-Aro) and based in part on the social security payments of non-cooperative firms and on the payments of the Social Security Mutual of Independent Workers. The variable fee is — as indicated above — a per cent of the consumption *anticipos*; for instance, in 1976 it was 12.85% of the AC. In any given year the social security *anticipos* are determined on the basis of the payments of the year before, corrected for inflation, and taking into consideration any hikes in the social security payments outside of the cooperatives.

All *anticipos* for any given term are computed in advance and can not be changed until the next term.

The hourly rate for total *anticipos* of index 1.00 is computed according to a procedure defined in the Statutes. First, a comparative study of the weighted medians of each level in the cooperatives with comparable ones in non-cooperative firms is made, both in terms of total *anticipos* and of consumption *anticipos*. The comparison in terms of total *anticipos* reveals the differences (per cent differences) in the overall rate increases of the values (*anticipos* vs. wages and salaries) compared, (see Table 1). The comparison in terms of consumption *anticipos* permits assessment of the differential effect of the cost of the social security *anticipo* in the take-home pay of the members of the cooperatives. This is so because

$$AC = AT - AP.$$

If the premiums paid by the cooperativists are smaller, then their consumption *anticipos* increase relative to those of non-cooperative firms. Table 2 illustrates this change. As Table 1 shows, the cooperatives benefit from lower social security payments while the benefits they receive are equal or better than those of non-cooperative firms. Table 1 also illustrates that overtime take-home pay in the cooperatives has been higher for the low levels but considerably lower for the high levels. This is an important institutional fact because it is both a symbol of solidarity and a source of very difficult problems of praxis. The extremely high — and negative — differential of *anticipos* at the higher levels has been diminishing over time in the period 1973-76, but at the same time lower levels have increased to the point that in 1976 they were 9% above (weighted median) the wages and salaries of the zone.

TABLE 1

Median Deviation (%) of Consumption *Anticipos* from Median Wages and Salaries of the Zone

LEVELS	% of Difference at ULARCO			
	1973 Dec. 31	1974 Dec. 31	1975 Dec. 31	1976 Jan-July
1	+1.4	+ 5.0	+ 2.7	+10.5
2	+5.5	+11.7	+10.3	+16.2
3	-8.5	0.0	- 4.2	+ 2.5
4	-30.1	-11.9	-17.0	-11.5
5	-116.6	-94.5	-72.1	-66.0
Weighted Median at ULARCO				+ 9.0

Source: ULARCO

TABLE 2

Changes in Median Deviation of *Anticipos* (%) after Payments for Social Security (from median wages and salaries of the zone)

LEVELS	% of difference at ULARCO			
	1974		1975	
	From AT%diff.	To AC%*	From AT%diff.	To AC%*
1	- 4.7	+ 5.0	- 8.5	+ 2.7
2	+ 2.2	+11.7	- 1.1	+10.3
3	- 7.9	0.0	-13.5	- 4.2
4	-17.3	-11.9	-25.4	-17.0
5	-92.5	-94.5	-74.2	-72.1
Weighted Median at ULARCO	- 4.94		- 9.04	

Source: ULARCO

\*AC = AT - AP

This means that their goal of external solidarity is not being achieved and also it is increasing the level of *anticipos* at a point which might be too high for the financial stability of the firms since increased *anticipos* mean a decrease in the speed of the capitalization of the firm.

This is the procedure used by the commission to compute the hourly rates for *anticipos*: The appropriate increase (K%) in the «current» (any given year's) hourly rate (HB) for total *anticipos* for index 1.00 (\*\*HB') is known after the comparison is made with the other firms. Namely, the cooperatives increase the hourly rate of index 1.00 by the same increment (%) as similar jobs in other firms. For instance, if the comparison yielded an 8% negative difference for the cooperatives they would increase their hourly rate by 8% (1K%). The resulting value is a «corrected» hourly rate for index 1.00 (\*HB') which, in turn, is used to compute a new consumption *anticipo* (\*HB<sup>c</sup>) by subtracting a newly-computed social security *anticipo* (\*AP). Summarizing:

$$*HB' = **HB' \times 1K\%$$

$$*HB^c = *HB' - *AP.$$

The new hourly rate for the consumption *anticipo* (\*HB<sup>c</sup>) is then corrected again to allow for cost of living increases (2K%), which usually means an increase of one per cent above that given by the Spanish National Institute of Statistics. After this correction, the final hourly rate for consumption *anticipos* for index 1.00 for the incoming period (HB<sup>c</sup>) is set. Summarizing:

$$HB^c = *HB^c \times 2K\%$$



The newly-computed social security *anticipo* (\*AP) is also corrected for external increases in rates (K); for instance, increases of various types in the Social Security System of Independent Workers. Thus, the final hourly rate (AP) is obtained. Summarizing:

$$AP = *AP + K$$

The final hourly rate for total *anticipos* for index 1.00 (HB') is then obtained by adding:

$$HB' = HB^c + AP.$$

All the *anticipos* for the rest of the indices in the cooperative are derived automatically from instance, to compute the monthly *anticipo* for index 1.80 the hourly rate for index 1.00 is multiplied by the normal work hours in a month (set at industry level) which in 1976 were 188.7 hours, and also multiplied by the particular index 1.80:

$$\text{Monthly total } \textit{anticipo} \text{ for index 1.80} = HB' \times 188.7 \times 1.80$$

When the *anticipos* for all levels are established they are presented (by the commission appointed to compute them) to the Social Council of the cooperative for discussion and approval. If the Social Council votes that changes have to be made it is necessary to call a General Assembly to make the changes. This occurred only once — in 1976. If the *anticipos* are approved, they are posted on the bulletin board of the firm.

Additions for overtime, bonuses, and other variable factors are added to the consumption *anticipos*. Each member has his/her share of the surplus on the basis of the total *anticipos* of the year. Before describing the rules for the distribution of the surplus and its relationship to the capitalization of the firm, a word is necessary regarding initial capital formation in the cooperatives.

### CAPITAL FORMATION

The initial capital to open a cooperative firm is formed by the contributions of the prospective members and by the contributions, in the form of loans, of financial institutions such as the cooperative *Caja Laboral Popular* or the Spanish National Fund for the Protection of Work (Fondo Nacional de Protección del Trabajo). The members' contributions are made in three parts (forms : 1) A non-refundable entrance fee; 2) An obligatory capital contribution which is set every year according to specified rules (this obligatory contribution is »retained« by the members in the form of stock which receives a yearly interest and a share of the surplus); 3) A voluntary contribution (any contribution beyond the obligatory is considered voluntary) also retained by the member in the form of stock. (Since no individ-

ual member can own more than 5% of the firm's stock, members who have less stock in the firm have priority if they want to give voluntary contributions. The contributions of financial institutions are debts which the firm must pay. For instance, in 1975 capital for a new cooperative was gathered this way:

20% from prospective members' fees and contributions  
20% from the National Fund for the Protection of Work  
60% from *Caja Laboral Popular*.

The sum of all entrance fees forms the initial Reserve Fund of the firm. The sum of all obligatory and voluntary contributions forms the stock base of the firm (*aportaciones computables*).

The Reserve Fund and the stock base together constitute the Social Capital of the firm. Summarizing, the initial Social Capital is formed by:

Social Capital	{	Entrance fees	→	Reserve Fund
		Obligatory capital cont.		Stock base
		Voluntary contribution		

In an ongoing firm the Reserve Fund is increased by:

1. New members' entrance fees
2. No less than 15% of the surplus (no more than 30%) yearly
3. The share of the surplus corresponding to the first three months of work of each new member
4. Deductions from members who withdraw from the cooperative.

The Reserve Fund is corrected for inflation every year. This fund can not be distributed among the members even if the firm closes. The obligatory and voluntary capital contributions are corrected for inflation every year and given a fixed interest rate of 6%. This interest is then added to each members' total *anticipos* and used to determine each individual's share of the surplus, which means that there is an additional return to capital which varies from 1% to 3%. An example might help to illustrate this: in 1975 the return to a cooperativist's capital was 12%:

correction for inflation	= 3%
interest	= 6%
variable share of surplus	= 3%
Total ...	12%

### THE DISTRIBUTION OF THE SURPLUS

The surplus is determined according to common procedures; therefore, both the *anticipos* and the interest paid to members' capital are computed as costs. Payments of debts and taxes and the way to

make them are proposed by management and approved by the Workers Council; then they are presented to the General Assembly for final approval. If approved, the surplus is ready to be distributed among its creditors. There are three defined creditors:

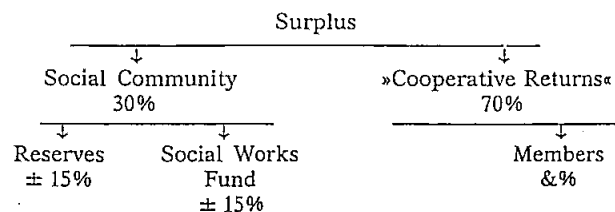
1. The labour community
2. The capital contributed by the labour community
3. The social community within which the firm exists.

The returns to the labour community are called »cooperative returns.« The social community receives a part through allotments to the Reserve Fund and the Social Works Fund. The Reserve Fund finances in part the fixed assets of the firm. The Social Works Fund is used to support education, recreational facilities, and health services for the community in which the firm is located. These funds are also used to improve working conditions. For instance, the experiments with new forms of work organization were financed through this fund.

No more than 70% of the surplus can be allocated to »cooperative returns.« They can be positive or negative:

»The cooperative returns can be from the cooperative to the member, called positive returns, when there is a surplus; or from the member to the cooperative, called negative returns, when there are losses.« Art. 68 By-laws

Whether the returns are positive or negative, they are distributed in the following way:



The exact proportion going to the Reserves and the Social depends on the size of the surplus. If it is large, it is distributed equally; if it is small then then Reserves receive a higher percentage. The exact amounts or percentages are proposed by the Workers Council to the General Assembly where they are approved or changed. There are guidelines to determine how much goes to each fund. The part of the surplus going to the Reserve Fund should not be smaller than the sum of the retained returns of new members (first three months) which are transferred to the Reserves as contributions to the economic infrastructure of the firm. The amount going to the Social

Works Fund should not be smaller than the interest which such fund's capital (used in the cooperative that same year) would have obtained.

In the same fashion, the positive returns can not be given in cash to the members until all the capital needed for the functioning of the firm is secured and there is enough to create new jobs. In the case of ULARCO:

»It has been decided in the General Assembly of ULARCO that, under no circumstances can it be given in cash until the joint capitals of the firm-members is superior to (as minimum) 125% of the sum of the net fixed assets and stocks of ULARCO.«  
Article 75 of the By-laws

If the above is achieved then,

»Only the members whose contributions (at the time of the distribution of the surplus) exceed the median value of the fixed assets per job (after deductions for the Reserve Fund have been made) can receive the surplus in cash.« Ibid.

If there are losses (negative returns) they are distributed between the labour community (the workers) and the social community (the social funds). In the first instance they are paid out of the Reserve Fund and in the second, from the members' capital. If the Reserves and the members' capital are exhausted, future *anticipos* of the members can be held liable for the losses, and payments for such debt can be established by the Workers Council.

Both positive and negative returns are distributed among the members and the social funds on the basis of the »Alfa coefficient.« This coefficient is an invention of the Mondragon Cooperatives to distribute gains and losses among the creditors of the surplus. The »Alfa coefficient« is set every year at the end of the fiscal term in the form of a percentage of increase (or loss) for both the social community and the labour community.

The point of departure for determining the »Alfa coefficient« is the constraint in the by-laws that the percentage-increase given to the labour community (the workers) on the basis of the *anticipos* plus the interest *can not be greater* than the percentage of the surplus assigned to the social funds (Reserve Fund and Social Works Fund). In fact, the cooperatives have established an equivalence so that both are equal. This percentage-increase (or loss) is the »Alfa coefficient.« To compute this coefficient, the *anticipos*, interest paid to capital, and total surplus are taken into consideration.

If »Alfa coefficient« = &%  
total surplus = TS  
anticipos + interest = AI,

then, the value of  $\&\%$ , in any given year, can be found by simple mathematical manipulations. Knowing that what is assigned to the social funds is a percentage ( $\&\%$ ) of the total surplus, we can write,

$$\&\% = \frac{\$ \text{ to social funds}}{TS}$$

$$\$ \text{ to social funds} = TS \times \&\%.$$

Knowing also that what is assigned to the labour community is a percentage ( $\&\%$ ) of the sum of *anticipos* plus interests, we can write,

$$\&\% = \frac{\$ \text{ to labor community}}{AI}$$

$$\$ \text{ to labor community} = AI \times \&\%.$$

Since, by definition, the total surplus is equal to the sum of what goes to the social funds plus what goes to the labour community, we can write,

$$TS = (TS \times \&\%) + (AI \times \&\%).$$

The value of  $\&\%$  can then be found,

$$I = \frac{TS}{(AI \times \&\%) + (TS \times \&\%)}$$

$$I = \frac{TS}{\&\% (AI + TS)}$$

$$\&\% = \frac{TS}{AI + TS}$$

The «Alfa coefficient» is then equal to the financial rate of growth of the firm. This coefficient is applied in such a way that the interests of the labour community are not pitted against those of the social funds, since the greater the percentage assigned to the social funds the greater is the percentage that goes to the labour community (each individual member). The distributive solution provided by the «Alfa coefficient» favours equally the gains of the labour community and the capitalization of the firm. The surplus is distributed as equitably as possible and in a form simple enough to explain and understand. Since the share of the surplus is not distributed in cash, all the

surplus remains in the firm. While this could be called a form of forced saving, it is accepted by the community because it has been demonstrated to be a successful way of financing the growth of the cooperatives.

While the cooperatives reward both the labour and capital contributions of the members, they make high demands in terms of responsibilities. The Workers' Council can increase the normal work week and the members must work overtime if it is necessary. Overtime work can occur when there are sudden increases in the demand for products of the cooperatives. Since the worker-members can not be laid-off during periods of slack in production, the firms must carefully plan their labour requirements. This translates into a policy of not accepting any more members than necessary, since unwanted unemployment or underemployment of the members is very costly to the firm. The by-laws establish that members who can not work due to reductions in production must be paid 80% of the *anticipos* they were getting in their previous job. The cost of these payments is shared by the Social Works Fund (25%), the Reserve Fund (25%), and the working members, i. e., the surplus (50%). Unemployed members must accept any jobs that open up in the same firm or in other cooperative firms, or be willing to enter into training or educational programmes. Absenteeism and tardiness are considered serious offenses if they are unjustified and receive sanctions specified in the by-laws.<sup>7)</sup>

The workers elect the ruling and executive bodies but once elected these have all the authority they need to perform in their offices. Management is appointed and given jurisdiction over areas of decision which can not be challenged by subordinates; however, it is accountable to the collective of members at the end of the fiscal term.

#### ELEMENTS OF PARTICIPATION

The collective ownership of the cooperatives allows the members to change or modify both the institutional foundations of the compensation system and the infrastructure developed to implement its goals. In practice this is not done because there is consistency between the goals and the infrastructure, and the equity of the system is recognized and accepted. The members can vote directly through the Social Council on arrangements for work schedules, vacations and holidays, and suggest changes in social security benefits and in *anticipos*. Actual changes in the latter two require calling the General Assembly for a final vote, but discussions of alternative solutions are made at the Social Council. All information needed in the process of discussion is requested and made available to the Social Council. At ULARCO it is usual for the Social Council to request direct information from managers and directors of services such as social security, health or

<sup>7)</sup> Articles 124—135 of the By-laws specify the disciplinary measures,



personnel in the form of reports to Social Council meetings. When the Social Council narrows the issue under discussion to a few alternatives, these are submitted to the collective for a vote. The alternative with most votes is then accepted by the Social Council and presented to the appropriate executive body for implementation. For instance, in 1976 a motion was presented through the Social Council to provide for a retroactive increase in *anticipos* due to the extreme economic conditions the country was going through (recession and inflation). A debate was opened in the Social Council with management's participation. The alternatives were discussed and a General Assembly was called for a final vote. This is the set of alternatives the collective had to vote for:

% Increase in Anticipos	Retroactive over months	Decrease of Surplus	Surplus in Millions/Pts.	Effect on Capitalization
0%	0	0	436	12.2%
5%	5	-39	397	11.1%
5%	7	-54	381	10.7%
10%	5	-78	358	10.3%
10%	7	-109	327	9.3%
14%	5	-109.9	327	9.3%
14%	7	-153	283	7.8%

Source: ULARCO

The majority vote favoured an increase of 10% over a period of five months, which was an intermediate solution. In theory, the members could have voted themselves then highest increase but a less extreme solution was the one adopted.

### CONCLUSIONS

Perhaps the most important conclusion to be drawn from the compensation system developed by the Mondragón Cooperatives is that a dialectical view as a point of departure for the distribution of benefits, losses, and responsibilities among the members of a system can yield workable and equitable solutions acceptable to all. A consistent commitment to solutions which take into account and overcome apparently conflicting demands is the hallmark of the methods and procedures developed by the cooperatives. This way of distributing benefits has demonstrated that digital either/or solutions can be superceded by a more flexible view. In the particular case of the Mondragón Cooperatives, this flexibility is made possible by the openness of information, democratic vote, and commitment to institutionally-accepted values.

### APPENDIX

#### Social Statutes

##### *Selected Articles from The Economic Regime*

*Art. 21.* The social capital is made of the contributions of the members in the forms of an entrance fee (capital cedido), an obligatory contribution (retained by the members) and voluntary contributions, under the rules established by this Statute. The social includes also the commandatory capital that financial institutions make when the development of the cooperatives demands so and the General Assembly requests it.

*Art. 22.* Every member will contribute an entrance fee which is an equivalent to the entrance fees of the members of the preceding year, which is related to the member's contributions over time to the Reserve Fund. Its exact amount is to be fixed by the Workers' Council on a yearly basis. The obligatory contributions retained by the members may vary between the minimum established by the Workers' Council and the maximum allowed by the legal norms. The voluntary contributions retained by the members are given the same status as obligatory ones, unless the General Assembly decides differently upon the time of its request.

*Art. 23.* The obligatory contributions as well as the voluntary and commandatory ones will receive a six percent interest. The General Assembly will decide on the increases (bonuses) over that interest rate in order to stimulate the maximum economic collaboration of the members, if it is necessary for the growth of the cooperative.

*Art. 24.* The contributions of the members will be corrected for inflation every fiscal term, taking into consideration the devaluation of the currency applied to the corresponding values of the fixed assets. This corrected amount will be the one taken into consideration for both the application of the interest rates and for the cooperative returns.

#### By-laws

##### *Selected Articles Section 7 — The Surplus and its Determination*

*Art. 63.* The surplus (of the enterprise), positive or negative, will be divided among the creditors of the same, in other words, among labour, capital and the social community, once that amount which corresponds to the «risk premium» (no longer in use, 1976) has been deducted if the surplus is positive.

*Art. 64.* The establishment of the income statement will take place in each fiscal year (or term) taking into consideration the sources and uses of funds and expenditures of the same. The usual accounting procedures will be applied to the former and to the changes in inventory valuation and tax forecasting, the regulations formulated in articles 66 and 67.

*Art. 65.* The amortizations will be carried out according to technical criteria established at the time of purchase of the equipment and materials in question and registered in the relevant documents. The amount of money amortization per period of time will be approved by the Workers' Council and communicated to the General Assembly for the coming fiscal year. The justified modification of these amounts for different elements will be presented by management to the Workers' Council for their approval. The amortizations will be applied to all capital goods (plant and equipment) registered as such at the beginning of the fiscal year.

*Art. 66.* The evaluation of the statement of inventory and of the products in process of manufacture, as well as of component parts, orders, etc., will be made at cost price (inventory), and it is at the management's discretion to liquidate any capital goods they find undesirable.

Art. 67. The fund for the payment of taxes will be set on the basis of technical criteria by management, which will then propose it to the Workers' Council. The criteria is to be communicated to the General Assembly, and at its appropriate time the actual amount going to such funds with a proposal for the liquidation of the amount of principal owed.

### Section 8

#### The Distribution of the Surplus

Art. 68. The surplus will be distributed among:

- Cooperative returns
- the Reserve Fund
- the Social Workers Fund

The cooperative returns can be 1) from the cooperative to the member when the surplus is positive, called "positive returns;" 2) from the member to the cooperative, when the results are negative, called "negative returns."

Art. 69. The amount of cooperative returns determined, both positive or negative, will be distributed among the members in direct proportion to the amount earned by each one, during the term (one year) for:

- Advances to labour (*anticipos laborales*); and
- the sum interest base of members' capital in the enterprise, which constitutes the return to capital.

Art. 70. The part of the surplus to be distributed in the form of cooperative returns, both positive and negative, is to be a percentage of the total represented by the sum of returns-to-labour plus base interest and risk premium, this sum constitutes the "computable base" for purposes of the distribution of the surplus.

Art. 71. Such percentage, as stated in the previous article, will be arrived at in such a way that the representative cipher (the percentage of increase or decrease called cooperative return) should be *equal* (Italics added) to the percentage of the surplus which is assigned to both the Reserve Fund and the Fund of Social Works.

Art. 72. If the surplus return is positive and after the distribution of the surplus has been made in the form of cooperative returns, the rest will be assigned to the Reserve Fund and the Social Works Fund. The proportion to assign to each fund will be decided by the General Assembly on basis of the proposal of the Workers' Council, within the framework of the regulations of the Statutes.

Art. 73. If the surplus is negative, it will be distributed onely among the cooperative returns and the Reserve Fund. At the end of the term (fiscal year), if the surplus is negative, the amount will be charged against the contributions of the members existing in the cooperative. If due to the accumulation of successive negative returns the capital contribution of the member (*aportacion*) disappeared and there was nothing left, the loss will be paid by the member through partial payments from the *anticipos*, as defined by the Workers' Council.

Art. 74. The amount of the surplus to be assigned to the Reserve Fund can not, in any case, be smaller than the sum of positive returns corresponding to the periods of trial dealt with in Article 62.

Art. 62. All members receive a return for their labour, including the trial period. However, during the first three months, the cooperative returns belonging to this period will go to the Reserve Fund as solidarity contribution of the member for the creation of an economic infrastructure.

Art. 75. The distribution of cooperative returns to the individual members in the cooperative before they can be given to the members is subject to the regulations of Article 28 of the Social Statutes of the cooperative, and in the case of enterprises members of ULARCO, to the regulations of the same.

Art. 28. (Belonging to the Social Statutes). In order that the distribution of the cooperative returns be given to the members for their free use, in total or in part, they have to meet the following requirements:

- (a) That the individual contribution of the member has already reached the amount necessary to cover the average cost of capital investment for one job in the cooperative after the required contribution to the Reserve Fund has been made.
- (b) That the capital needed by the cooperative to finance its activities, in a competitive manner, is adequate.
- (c) That there is enough capitalization within the enterprise so that new jobs can be created to allow other members to enter into the cooperative.

#### Selected Articles from the Labor Regime

Art. 113. All members are obliged to perform any type of work or activity if the productive needs or extraordinary situations demand it so, independently of the habitual jobs they may hold. The decisions as to these changes in work belong to management. Members who refuse to consent to these changes will be subject to the regulation of the disciplinary regime.

Art. 114. The changes referred to in the preceding article will be made in terms of functional needs. Seniority can not be claimed to refuse such changes.

Art. 115. The permanence of members in jobs is important for the quality of the outcomes, therefore, the petitions for changes of jobs will be denied if the member has not been at a job for at least four consecutive years, excluding those cases in which there has been further training of the member which warrants a change.

Art. 118 and Art. 119. When causes external to the cooperative produce the need to curtail employment of members at ULARCO level those which will become unemployed are to be in order of seniority with those having less seniority becoming unemployed first.

Art. 120. Unemployed members have a right to receive 80% of the consumption *anticipos* which the working members of similar levels obtain during such time. This compensation to unemployed members is also a computable base for the distribution of the cooperative returns. However, if during this time the member works outside of the cooperatives, this circumstance is to be taken into account to vary the established compensation. In any event, the unemployed member will have to accept any job which becomes available or will have to participate in training or educative activities that the cooperative might provide. Members who refuse to comply will lose their right to unemployment compensation and be subjected to a disciplinary charge.

Art. 121. Under normal circumstances, the financing of the unemployment compensation will be made in the following way:

- (a) If there is a Social Workers Fund which has funds available for investment:
  - 25% of the unemployment compensation is financed by the Social Works Fund
  - 25% is financed by the Reserve Fund
  - 50% is financed from the consumption *anticipos* of the working members, proportionally to their level of *anticipos*.
- If there are no funds in the Social Works Fund:
  - 50% is financed by the Reserve Fund
  - 50% is financed by the working members.

In the cooperatives associated with ULARCO, the financing of unemployment is made on the basis of the resources of all associated cooperatives.

Art. 122. The cooperative will not be responsible for the transportation of the members to and from the cooperative, except in cases where the

plant is moved more than 1/2 km away from its previous location. The transportation arranged collectively by the members or contracted by the cooperatives will be financed up to 50% of costs.

#### Selected Articles from Disciplinary Regime

*Art. 124.* In order to ensure an adequate organizational climate, both social- and work-related, some infractions of the cooperative regulations will be subjected to sanctions. Since each member is not only a worker but also protagonist of a social experience, the disciplinary regime has defined two variants, work-related discipline and social participation discipline.

*Art. 125.* The infractions of the work-related regulations can be classified as mild, serious, and very serious, the sanctions are according to these By-laws also classified as pertaining to infractions which are mild, serious, and very serious.

*Art. 126.* These are mild infractions:

1. Those that bring unnecessary obstacles to the normal performance and responsibilities of the member.
2. More than five unjustified late arrivals to work within a work semester.
3. Absenteeism from work for more than two unjustified hours in a month.
4. Lack of regard and politeness for other co-workers.
5. Lack of personal cleanliness and peer appearance.
6. Lack of care which results in mild accidents of work or which can lead to accidents.
7. Infractions established by the social insurance mutual (*Lagun-Aro*) as mild.

*Art. 127.* These are serious infractions:

1. Recurring mild infractions after sanctions have been applied.
2. More than ten events of unjustified tardiness to work within a work semester.
3. Absenteeism from work for more than eight hours without justification during a period of a month.
4. Protest in loud or indolent way.
5. Low labour productivity after previous notice.
6. Refusal to abide by mild sanctions.
7. Refusal to follow the regulations imposed by the Labor Regime and carried through by personnel management.
8. Open and violent feuds with other co-workers which interfere with the work activities.
9. Carelessness resulting in serious accidents.
10. Those infractions labeled as serious by *Lagun-Aro*.
11. All those which the Workers' Council define as such in regard to the proper functioning of the cooperative.

*Art. 128.* The very serious infractions are:

1. More than 20 unjustified events of tardiness to work within a semester.
2. Unauthorized absenteeism from work for 20 hours in a given month.
3. Fraud, disloyalty or abuse of confidence in management or other assigned activities. Theft to the cooperative or to other members.
4. Damage to materials, tools, buildings or documents of the cooperative.
5. Criminal conviction for theft or embezzlement of funds outside of the cooperative.
6. Violations of secrecy of documents of the cooperatives or disclosures to outsiders of confidential information of the cooperatives. Also promoting activities which compete with the cooperatives.

7. Lowering of productivity after sanctions have been imposed.
8. Commitment to work or activities outside of the cooperatives when it is accepted that the cooperative is providing all necessary opportunities and spirit of collaboration from within.
9. Refusal to comply with sanctions for serious infractions.
10. Disciplinary infractions which are very serious.
11. Refusal to obey superiors in matters directly related to work performance which negatively affect the firm or the co-workers.
12. Recurrent serious infractions.
13. Those qualified as such by *Lagun-Aro*.
14. Strikes for internal reasons (Article 138).

*Art. 129.* The sanctions to be applied in each of the preceding cases are:

1. For mild infractions, suspension from work without pay, or subtraction of *anticipos* up to two days.
2. For serious infractions, same as above but the suspensions without pay are from three to fifteen days, subtraction of *anticipos* up to six days, change of job within the cooperative, lowering of level for a specified period of time independently of the structural index of the job.
3. For very serious infractions, all the above, but the suspensions without pay from fifteen days to sixty days, subtraction of *anticipos* up to two months, eliminations total or partial of the returns at the end of the year, negation of promotional opportunities, expulsion from the cooperative.

If the member is dismissed from *Lagun-Aro* he is automatically dismissed from the cooperative.

#### Procedures for Disciplinary Regime

*Art. 132.* Sanctions can not be applied unless proceedings are carried out in written form. The labour discipline will be carried out by the management at the request of the immediate superior of the member in question. The social discipline is carried out by the Workers' Council at the request of the social body in question. All written communication about infractions and sanctions will be given to the member and also stay in the Archives of the cooperative attached to the written documents of the proceedings. At the end of the year, the sanctions imposed on the members can be cancelled if during the term the member's behaviour changed toward the accomplishment of his/her duties.

*Art. 133.* The proceedings regarding mild infractions are initiated by the Director of the member in question, who also will communicate to him/her in written form the nature of the infraction and the attached sanction. If the member disagrees with the Director, he can make an appeal to management which will give the final decision.

The proceedings regarding serious infractions will be initiated by management, which will communicate to the member in written form the nature of the infractions and the attached sanctions. The member has the right to make a plea of innocence and management can uphold or modify the sanction. If not satisfied the member can appeal to the Workers' Council which will have the final irrevocable decision.

Proceedings regarding very serious infractions are initiated by management and presented to the Workers' Council, which makes an irrevocable final decision, except in cases where the dismissal of the member is in question and he/she can appeal to the General Assembly.

A similar procedure is to be followed in the case of social infractions, except that in this event it is the Workers Council which initiates the proceedings.

*Art. 135.* Management and the Workers' Council can suspend temporarily the employment of members against whom proceedings have been initiated.

NAGRAĐIVANJE, PRAVICNOST I INDUSTRIJSKA DEMOKRATIJA  
U MONDRAGONSKIM KOOPERATIVAMA

Ana GUTIERREZ-JOHNSON

Rezime

U članku je opisan sistem nagrađivanja u Mondragonskim kooperativama koje se nalaze u Provinciji Guipuzcoa (Baskija) u Španiji.

Mondragonske kooperative obuhvataju grupu industrijskih preduzeća, uslužnih organizacija, obrazovnih institucija (uključujući i jednu tehničku školu i centar za istraživanje i razvoj) i potrošačku zadrugu, koji zajedno čine jedan kompleks na osnovu svog članstva u Caja Laboral Popular. Caja je kreditna kooperativa koja se prostire po svim provincijama Baskije i deluje kao banka, centar za finansiranje, savetodavno i kontrolno telo za sve organizacije članice. Krajem 1976. godine ovaj kompleks imao je oko stotinak organizacija, od kojih su 65 bile industrijska i uslužna preduzeća sa ukupnim brojem od 14.665 radnika (oko 10% ukupnog radnog stanovništva Provincije Guipuzcoa).

Počev od 1956. godine, kada je osnovano jedno malo preduzeće sa 23 radnika, ovaj kompleks je za proteklih 21 godinu svog postojanja doživeo eksponencijalan rast. Katalizator ovakvog razvoja bio je Jose Maria Arizmendi, mesni sveštenik i učitelj, koji je podstakao petoricu svojih učenika da osnuju jedno samoupravno preduzeće u kolektivnom vlasništvu. Danas je bitno obeležje svih preduzeća, koja su članovi ovog kompleksa, kolektivno vlasništvo i demokratski način izbora svih upravnih i izvršnih tela preko sistema jedan član — jedan glas. Generalna skupština radnika bira radnički savet koji imenuje rukovodstvo s kojim zajedno čini upravni savet, najviši izvršni organ preduzeća. Društveni savet koji biraju radnici ima savetodavnu funkciju u odnosu na upravni savet i radnički savet; pored toga bira se i savet za samozastitu koji ima nadzornu funkciju.

Opšte je poznata istina da je adekvatno, pravedno i sprovodljivo, nagrađivanje od najvećeg značaja za funkcionisanje preduzeća. Preduzeća Mondragonskog kompleksa morala su da izrade takav sistem nagrađivanja koji bi bio dosledan zahtevima principa kolektivnog vlasništva i samoupravljanja. Kao rezultat stvoren je jedinstven sistem nagrađivanja koji je vezan i za druge aspekte funkcionisanja preduzeća koji se obično ne uzimaju u obzir kada je reč o nagrađivanju.

Ovaj sistem nagrađivanja sproveden je na osnovu (1) jedne institucionalne baze kojom se utvrđuju norme i principi međusobnih odnosa između članova i preduzeća što dopušta postavljanje ciljeva nagrađivanja; (2) formalizovane procene rada kojom se utvrđuje vrednost svakog radnog mesta i njihovi rasponi; (3) jednog mehanizma koji omogućuje izražavanje kolektivnih preferencija po pitanju regulisanja nagrađivanja.

Tradicionalna koncepcija o nadnicama i platama nije se mogla ovde primeniti, budući da su svi članovi istovremeno i radnici-vlasnici, te prema tome ne primaju plate i nadnice već neku vrstu nadoknade za rad koja se može obračunati tek na kraju obračunske godine. Dohodi su direktno vezani za performanse celog preduzeća pošto se moraju uskladićati sa stvar-

nim rezultatima. Ova karakteristika ukazuje na to da se dohodi radnika tretiraju kao troškovi samo u obračunske svrhe. Svi članovi imaju pravo da učestvuju u višku koji im se dodeljuje, ali se isti zadržava u preduzeću i služi za investicije i razvoj. Informacije o svim pitanjima nagrađivanja stavljaju se na uvid članovima budući da se pravo na informisanje tretira kao neotuđivo pravo radnika. Informisanje olakšava postojanje pisanih pravilnika koji sadrže načela nagrađivanja i mere za njihovo sprovođenje. Pravičnost unutar kooperative postignuta je na taj način što je maksimalna razlika u zaradama ograničena rasponom jedan prema tri. Što se tiče spoljnog sveta nastoji se da se regulativnim merama kupovna moć radnika — članova kooperative izjednači sa kupovnom moći zaposlenih u drugim preduzećima koja nisu tipa kooperative.

Putem analitičke procene poslova utvrđeno je šest platnih nivoa kao i numerička vrednost (indeks) svakog posla. Nagrađivanje se vrši na osnovu vrednosti indeksa posla, ocene pretpostavljenog kojom se meri učinak svakog pojedinca na radnom mestu, i zbira ova dva faktora sa procentom koji je zaraden pomoću kapitala koji je član uložio u preduzeće. Svi zajedno oni čine onaj procenat koji je zaraden na osnovu učešća kapitala člana u preduzeću, što čini »osnovicu« za njegovo učešće u višku. To učešće u višku odgovara bonusu koji se bazira na produktivnosti preduzeća kao celine. Višak se raspodeljuje između članova (70%) i društvenih fondova (30%), ali se u ukupnom iznosu zadržava u preduzeću do odlaska člana u penziju. Višak se raspodeljuje u vidu »koefficienta alfa«, što predstavlja stopu finansijskog rasta preduzeća. To znači da svaki pojedinac povećava svoju »osnovicu« zaradu po istoj onoj stopi po kojoj raste i preduzeće.

Iz praktičnih razloga naknade se isplaćuju članovima u vidu mesečnih akontacija koje se zovu anticipos. Ove akontacije se utvrđuju na osnovu komparativne analize sa platama i nadnicama najniže plaćenih poslova u preduzećima koja nisu tipa kooperative. Sve akontacije u kooperativama izračunavaju se na osnovu naknada za najniže plaćene poslove.

Iako je veći broj pitanja vezan za nagrađivanje regulisan na institucionalnom nivou, još uvek je čitav niz pitanja prepušten odlučivanju na osnovu neposrednog učešća radnika. Na institucionalnom nivou društveni savet odlučuje po pitanjima participacije u programima rada, povećanja mesečnih akontacija, izmena beneficija po osnovu socijalnog osiguranja, prekovremenog rada i sl. On takođe odobrava razmatranje i usvajanje odnosno odbijanje predloga koje podnosi rukovodstvo i/ili radnički savet.