An Insight into Co-operativism

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Abstract

The concept of co-operativism is analysed in this report. As an introduction to the subject, the values that socially friendly businesses work with are mentioned, as well as, the basic differences with regard to capitalist companies. In order to broaden the model, seven basic principles that drive such companies are analysed. Recently, due to the economic crisis, many capitalist companies have changed their way of running the business and have opted for cooperatives. Therefore, the steps they have to follow to become part of this view will be considered. So as to introduce a more critical view, benefits and drawbacks of cooperative companies will be borne in mind. In addition, no theoretical model is complete if real examples are not provided, thus in the final part, four companies will be studied. The first one being a company that has always been part of a group of cooperatives and which has enjoyed positive results all over; the second one, a company that has experienced the benefits of leaving the group; the third one, the cornerstone of such group, whose effort to relaunch the company have failed; and the final one, an acquired company whose future is uncertain due to its parent company's decline. To conclude, the final section is going to be devoted to heighten the problems that cooperatives have and which may have compromised their status as alternative models to capitalism.
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1. Introduction

History has witnessed how human beings have always praised in favour of power and individual benefits. Such a society has sow the seeds for a model in which the concentration of control is held and enjoyed by very few (Divar Garteiz-Aurrecoa, 1985). Nevertheless, there are other economic models that pursue the construction of a rich society by other means. This is a system ruled by free individuals who have the opportunity to participate in its development and whose strengths and abilities are valued in order to build a fruitful community (Azurmendi, 1999).

1.1. Co-operativism: Mission and Values

The cooperative movement has tried to institutionalize these aptitudes by creating socio-economical systems where an active participation and development of workers is sought. To try to involve them in the community, the mission of this movement lies in a caring, egalitarian democracy of self-rulled individuals (Azurmendi, 1999). Cooperative companies will have to make workers understand their basic values of self-help, self- and social- responsibility and mutual help (The Co-operative Group), and ensure that they are able to put them into practice in order to create strong and reliable corporations (Mondragon S.Coop.).

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¹ Other relevant sources include: Cooperativismo escolar; Banco de la República; Social Economy Arizona.
1.2. Differences with Regard to Capitalism

There are obvious differences between cooperatives and capitalist companies; therefore, an in-depth analysis will be carried out to try to understand them better.

First of all, and although cooperatives look for economic profit too, their goal is to prioritize the human individual over capital gains (Rosembuj, 1985). These types of companies are constituted around its members and their active participation; hence individual workers normally make decisions driven by a need for mutual satisfaction. On the contrary, as far as capitalist companies are concerned, personal benefit remains as one of their main targets.

Furthermore, part of annual profits is destined to workers and is subject to the work done by each of them. There is still another part that is devoted to common goals, such as the consolidation of the cooperative itself, or to cultural, educational and charitable purposes. However, in capitalist societies this gain goes to the capital holder. With regard to the position a worker holds in the company, on the one hand, in cooperatives all of the members have a say in the decisions taken and in the day-to-day business operations. On the other hand, in companies following free market models, participation is based on the amount of capital that has been contributed by each of the shareholders, whilst regular employees have little chance to vote.

In addition, in a social economy money is raised through different channels: direct investment of its members, excess profits and gains from sales. In the other case, funds are usually obtained from capital markets and shareholders’
contributions. Finally, the purpose of the cooperative system is to maximize the customer service, whereas capitalists will try to maximize shareholders’ return (FEVECTA; ICA).

2. Basis for Co-operativism

All these stream of thoughts have to be gathered and put into practice together in order to achieve a common goal (Rosembuj, 1985). The principles shaped in all different cooperatives can be summed up in the following list:

1. **Voluntary and open membership.** As long as there is practical need for hiring a worker and after considering that he or she is suitable for the position, there would be no discrimination on the grounds of religion, politics, ethnic group or sex. This membership comes with the obligation to accept its corresponding responsibilities. Likewise, a member can also, if rightfully justified, leave the company.
2. Democratic member control. Every member in a cooperative is equally represented and has the right to take part in the decision making process. Each of them accounts for a single vote regardless of their position, capital contribution or any other factor that in a capitalist society would draw the line for difference (Rosembuj, 1985). These democratic organizations are divided into a General Assembly, formed by all of its members and where the company's sovereignty rests; an Executive Committee, who devised by a reduced number of partners and being representative of all its members, carries out the tasks of advising, informing, negotiating and controlling social aspects; and additional directive bodies, chosen by the Executive Committee and constituted to manage the society on behalf of its members (Mondragon S. Coop.). Inspectors are fiscal entities which are responsible for correctly presenting the annual reports and management reports to the General Assembly. Finally, the Resources Committee is on charge of handling and solving the sanctions imposed to partners by the Executive Committee (Dirección General de Industria y de la Pequeña y Mediana Empresa). On top of that, these organizations have to look for transparency and constant information flow among all workers in order to foster participation.

(Bradley and Gelb, 1985; Salinas Ramos, 1985)
3. **Member’s economic participation.** Becoming member of a cooperative implies a given contribution to the social capital of the company, although the amount invested is not a guarantee of proportional decision rights (Rosembuj, 1985). In such democratic companies, its members have the right and obligation to decide where the surplus from its activities goes. The interest earned with this capital will be shared bearing in mind the work done by its contributors and not according to their investment (Mondragon S. Coop.). Responding to their social and economic commitment, it is rather unlikely that members receive the total amount of these dividends, as the company’s aim is to devote part of this surplus to the improvement of the organization itself (Rosembuj, 1985).

4. **Autonomy and independence.** The democratic aspect of the cooperatives enables all of its members to participate in the decision making process. In addition, and according to the value of self-help, every organization is responsible for itself, and there is no private enterprise or government that rules over it (Cooperativismo escolar; ICA).

5. **Education and training.** One of the basic pillars of cooperatives is the constant effort to educate their members. In such training, workers have the opportunity to understand and learn characteristic social and economic values that make this type of organizations easily differentiable (Rosembuj, 1985). Cooperation, for this matter, tries to detach workers from selfish personal interests or from the fear to participate actively (ICA). They will enjoy the freedom to pursue fruitful projects that satisfy them and can have in turn, a positive effect on the company (Rosembuj, 1985).
6. **Cooperation among cooperatives.** Bearing in mind that the cooperative movement is rather feeble and not widely followed, companies sign on projects and create joint agreements in local, national and international level in order to spread out and strengthen their principles of solidarity (ICA; Mondragon S. Coop.).

7. **Concern for community and environmental sustainability.** The primary objective is to train members how to interact in a community, make them part of it and assure that they feel valuable in the day-to-day business. These projects go beyond the corporate sphere as cooperatives attempt to show to their environment the benefits of the joint activities they perform (Olivera, 1973).

3. **Turning into a Cooperative**

   The aftermath of the recent economic crisis has led to an increase in the amount of self-employed workers. The examples behind this idea vary from employees who have been made redundant and have limited new job opportunities, to young entrepreneurs whose only support is their own effort.

   The question lies in the reasons to choose cooperatives instead of other types of companies. One of the reasons explained is that this management method is well considered among young generations, mainly due to the priority given to
individuals before capital, the search for long term growth rather than immediate profits, or the need for social progress.

Their flexibility to adapt to changing environments has led to their proliferation. As an example, in the Basque Country, since 2008, the amount of social enterprises has increased 22.3% (Mata, 2012) and in Catalonia it has been of 36% for the last year (Blanchar, 2013). Therefore, in this section, the steps to transform a capitalist company into a cooperative will be shown.

3.1. Steps to Follow

The constitution of a cooperative may be eased as a result of working with an already existing company. The first important step the company has to take is to grant the right to become members to all of its workers; consequently, they will have to invest an amount of capital specified in the bylaws. The entire workforce will have to be involved in these decisions as a result of the company’s participatory approach. As a result, a huge effort will be required from new members in order to gather and understand information about the corporation. In addition, they will have to become familiar with the new ideological perspective that cooperatives involve.

Even though the company is already established and the market in which it operates is already known, it will need to conduct a viability study to evaluate the
possibilities and critical aspects emerging from its renewed image. Along with this study, the operational, tactical and strategic objectives will have to be taken into account in order to assess the company’s path in the short- and long-term (Fernández-Villa et al.; Elkar-Lan S.Coop., 2013).

In the previous step of constitution, first, the name of the company will need to be changed to include Coop. if it previously used terms such as Co. or Ltd. In order to be valid, a certificate will have to be requested from the General Registry of Cooperatives. In the next step, the by-laws of the company will have to be written down by the General Assembly. In such document, the structure, the governing bodies and the way of running the business are established, as well as the rights and obligations of its members. The field, signed by all the members of the cooperative, will have to be submitted to the General Registry of Cooperatives along with information about all the partners. The ministry will have thirty days to assert the validity of the document. Once it has been granted, the company has two months to execute its constitution deed, where the following information will be recorded: social capital available, partners of the new project, goods contributed by members, members constituting the Executive Committee and the Inspectors.

After the public deed has taken place, the cooperative is recorded in the General Registry of Cooperatives, once copies of the constitution deed have been submitted. One of those copies will also have to be submitted to the Registry of Commerce. All these steps are required in order to constitute a cooperative. Nevertheless, there are still some fiscal obligations it has to address.
Once the public deed has been granted, the first fiscal obligation is to present to the Attorney General the contracts subject to the property transfer tax. This amount will have to be paid before any registration has been done. Right afterwards, presenting a copy of the public deed and the registration certificate, the number for fiscal identification can be requested. With regard to the Social Security, the cooperative can choose between two types of systems: a general one or the self-employed one. For the former, the company will have to submit the registration model, type of workers’ membership, insurance policies, registration certificate in the Cooperatives Registry and the representative’s ID copy. While for the latter, a copy of the by-laws, a copy proving that the legal license tax has been paid, insurance policies, the company's registration model and the type of workers’ membership will have to be presented. In addition, workers opting for a self-employment contribution will have to hand in an ID copy and a copy of the family book.

For the final step, cooperatives have the obligation to keep updated the following books: member registry book, title deed registry book, minutes of the General Assembly and the Executive Committee, as well as the accounting book (Salinas Ramos, 1985; Elkar-Lan S.Coop. 2013).

The following two sections will be devoted to assess the positive and negative sides of cooperatives.
3.2. Benefits

Cooperatives are not driven by the sole priority of earning economic benefits. They look for the general well-being of their own members, as well as, the community that surrounds them. For the latter, companies usually try to embrace in projects that can have a positive impact in the environment they work in.

For its workers, the active participation they are involved in and the equal rights and obligations that come with the membership may help create a supportive and communitarian mind that heightens their position in the company (UNCCUE, 2012). In an attempt to create sustainable employment, companies that are facing difficulties can reallocate its members in other jobs if they are part of a group of cooperatives. If they turn out to be unemployed, members can withdraw the capital they invested when they entered the cooperative (NEEx, 2010).

Members can choose the way in which they contribute to the Social Security. They can either sign up for the general system or the self-employed one. With regard to tax regulation, companies can either reduce or be exempt of payment. The most significant one being the corporate tax, whose base is reduced 20% (FEVETCA).

3.3. Drawbacks

There is an initial and compulsory request when establishing a cooperative: it has to be formed by a minimum of two to three partners and the capital contribution has to be of at least 3000 Euros (Elkar-Lan S.Coop. 2013; NEEx, 2010). Apart from this initial amount, future investments made by members can be
subject to limitations as they do not have infinite funds to help the company. Thus, its potential for growth can be compromised (Freire, 2013).

Once it has been constituted and is ready to become operative, there are aspects that can complicate its proper functioning. The first problem may arise from an apparent fair and democratic decision making process; it can turn out to be more complicated than in other corporations that have authoritarian management, as a result of trying to involve the whole workforce. Hence, one of the main disadvantages a cooperative may face is the continuous disagreement and loss of trust between members. (Sociedades Limitadas) It involves the need to look for alternative control mechanisms to avoid these situations and build a trustworthy community of workers. This distrust can be further transmitted to external creditors who believe that it is more difficult to control the board, which in turn can complicate the access to additional funds (Freire, 2013).

A further downturn is that although individuals can voluntarily join and leave cooperatives, the employment of non-members is rather limited and instead, internal hiring is promoted (Sociedades Limitadas). Continuing with hiring issues, there is an agreement that limits the salaries of the directors. The ratio is set on a 6:1 basis, which means that the highest salary earned cannot be more than six times the salary of a regular worker. This may be a reason that discourages external talents from joining the cooperative. However, many argue that if people are driven just by monetary compensation, they will not be suitable for cooperatives (Cancelo, 2013; Freire, 2013).
4. Realistic Approach

4.1. An Insight into Mondragon S.Coop.

Considering that no theoretical model would be useful without having real examples that support it, this section will be responsible for analyzing some companies that are or have been part of the Mondragon Corporation.

Mondragon S.Coop. is a vibrant symbol of co-operativism. It is actually, the biggest corporation in the Basque Country and the seventh biggest in Spain. It was founded in 1956 by priest Arizmendiarrrieta in the town of Mondragon and it has developed its original idea of social commitment and business development to form a group of fruitful companies that cover a broad number of economic areas. The 289 firms that form the group, from which 110 are cooperatives, are bound to four different business sectors: industry, retail, finance and knowledge. Last year their average work force amounted to 80 321 in Spain, from which 43% were women, and around 14 000 were employed in international subsidiaries. Their international presence ranges from Europe to most of the BRIC countries, and from the USA and Mexico to South Africa among others (Mondragon S.Coop.).

Since over more than half a century, the group has witnessed the comings and goings of companies of its own, in this part of the report the benefits or the
inconveniences of having left or even entered the cooperative group will be quantified.

4.2. Orona: Mondragon S.Coop.’s Long-standing Symbol

Orona S.Coop. was created in 1964 and entered the Mondragon group four years later. This had been in a context of economic boom and increased consumption that began in that same decade. The company started with boiling works, but soon thereafter began the production, maintenance and replacement of elevating appliances, such as lifts, escalators and walkways (Orona S.Coop.).

This section is going to be subject to the analysis of several financial ratios in order to be able to assess the promising path that Orona has followed, especially in the last decade, independently of the economic situation undergone. The study is divided into two different parts that take into account the profitability and liquidity of the company.

The financial crisis posed a huge problem in terms of sales. Sales began to fall at the beginning of the turmoil and reached a dramatic peak in 2009. Thereafter, the company has been recovering from this loss at a discrete pace.
The pattern followed by annual net income is positive and increases during all the period, exception made for year 2010, when they fall but not at a very high rate. This decrease can be due to an increase in financial expenses that was undergone in that fiscal year. Regardless of that, in the rest of the years growth is bigger than inflation. Although there is a slightly bad sign in 2007 as growth falls below the stratospheric rate of inflation. For the profit margin, the extent to which sales are captured by net income has been studied. Even if it has had a decreasing trend, it is still high enough and after the crisis, the amount of sales reflected in net income has even increased.

In order to continue with the profitability aspect, the first parameter to be considered will be the return on assets, which evaluates the efficiently of investments when dealing with the firm's assets. The variability seen in sales also affects this return, therefore as the economic crisis began to appear, the efficiency of such investments declined. Although it has not reached the values from before the crisis, it is increasing slightly. During the whole period being analyzed the yield obtained from the investments has been able to cover the costs of financing easily, except for 2010, when the interest payable was higher than in the preceding years.

An additional calculation that will help in the assessment of the financial situation of the company is the return on equity. Its goal is to measure the profits that are obtained from investing the company's partners' equity. The results

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2 All the data of all the companies studied is obtained from Sabi.
obtained show that the company gets good returns and although this profitability was affected by the current economic situation, the return is recovering slightly well.

<table>
<thead>
<tr>
<th>Year</th>
<th>ROA</th>
<th>Cost of Debt</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>17.68%</td>
<td>1.85%</td>
<td>21.56%</td>
</tr>
<tr>
<td>2006</td>
<td>17.75%</td>
<td>1.59%</td>
<td>22.13%</td>
</tr>
<tr>
<td>2007</td>
<td>10.39%</td>
<td>1.69%</td>
<td>19.19%</td>
</tr>
<tr>
<td>2008</td>
<td>12.24%</td>
<td>2.36%</td>
<td>17.23%</td>
</tr>
<tr>
<td>2009</td>
<td>19.71%</td>
<td>2.91%</td>
<td>18.27%</td>
</tr>
<tr>
<td>2010</td>
<td>14.55%</td>
<td>14.66%</td>
<td>15.60%</td>
</tr>
</tbody>
</table>

For the matter of liquidity, the current ratio shows whether the current assets of the company cover the current liabilities. In the period between 2005 and 2010 current assets have been larger than its current liabilities. In addition, this difference keeps increasing over the years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>1.618</td>
</tr>
<tr>
<td>2006</td>
<td>1.558</td>
</tr>
<tr>
<td>2007</td>
<td>1.698</td>
</tr>
<tr>
<td>2008</td>
<td>2.087</td>
</tr>
<tr>
<td>2009</td>
<td>2.377</td>
</tr>
<tr>
<td>2010</td>
<td>2.785</td>
</tr>
</tbody>
</table>

Although this fact seems to be promising, the company owes a large amount of debt in the short term. Nevertheless, both the amount of short-term and long-term debt has decreased, leaving a considerable reduction in total debt. Another positive aspect that the company has is its increasing solvency. It is able to cover its financial responsibilities with the assets it owns.

Although the company has been another victim of the crisis, it has not suffered heavily and it has been able to overcome the situation and start growing again.
4.3. *Irizar*: Benefits after Leaving Mondragon S.Coop.

Irizar was founded back in 1889 and was turned into a cooperative in 1963. Just one year later, the luxury coach making company decided to join the Mondragon group. All this changes took place in a context of economic growth in Spain. Although they had their booming years, in the 90s the company was close to cease its business due to a technical bankruptcy. Nevertheless, a new perspective embraced by Koldo Saratxaga, brought the company to a leading position in the world markets between 1991 and 2005 (Goñi, 2013; Irizar S.Coop. 2013).

In 2008, all the company members got together and decided that, in order to gain more flexibility and be able to respond to their international duties, they needed to leave Mondragon S.Coop. and continue on their own (Blanco, 2008).

The aim of this section will be to assess whether its departure has brought more welfare, bearing in mind that at that time the consequences of the financial crisis were beginning to be internalized.

One of the incentives that may have contributed to the decision to leave the Mondragon group is the 10% revenue contribution that the member companies have to make to it (Ormazabal, 2008). Irizar’s growth in revenue in the years after their departure reflects that it has indeed favored them.

<table>
<thead>
<tr>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (€)</td>
<td>216.333.000</td>
<td>241.649.000</td>
<td>121.947.000</td>
<td>170.534.000</td>
</tr>
<tr>
<td>Growth in Revenue</td>
<td>4,24%</td>
<td>11,70%</td>
<td>-49,54%*</td>
<td>39,84%</td>
</tr>
</tbody>
</table>

* Figure obtained from annual reports of the company
But probably, the most significant figure is the one dealing with annual profits.

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Income (€)</th>
<th>Net Income Growth</th>
<th>Inflation</th>
<th>Profit Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>34,846,000</td>
<td>-14,49%</td>
<td>2,67%</td>
<td>16,67%</td>
</tr>
<tr>
<td>2006</td>
<td>29,798,000</td>
<td>9,00%</td>
<td>4,22%</td>
<td>14,94%</td>
</tr>
<tr>
<td>2007</td>
<td>32,479,000</td>
<td>16,10%</td>
<td>1,43%</td>
<td>15,70%</td>
</tr>
<tr>
<td>2008</td>
<td>37,707,000</td>
<td>-59,55%</td>
<td>0,79%</td>
<td>16,26%</td>
</tr>
<tr>
<td>2009</td>
<td>15,253,077</td>
<td>30,00%*</td>
<td>2,99%</td>
<td>12,53%</td>
</tr>
<tr>
<td>2010</td>
<td>19,829,000</td>
<td>38,13%</td>
<td>2,38%</td>
<td>12,25%</td>
</tr>
<tr>
<td>2011</td>
<td>27,390,000</td>
<td></td>
<td></td>
<td>15,42%</td>
</tr>
</tbody>
</table>

* Figure obtained from annual reports of the company

There have been two important events since 2005. The first dreadful result is in 2006, coinciding with the end of Koldo Saratxaga's leadership. The other one has to do with the economic crisis and the consequent decline in activity in 2009. Nevertheless, 2010 was a great year as the company has been experiencing a constant growth in net income thereafter. In addition, each year the growth has been bigger than the inflation experienced in Spain. However, this growth does not place the company in pre-crisis figures yet. Between 2005 and 2008, the profit margin did not follow a specific trend as it decreases in the second year, but continue growing until the economic turmoil showed up. After that decline, it has recovered and it has even reached pre-crisis figures.

Continuing with profitability ratios, let’s consider both the return in assets and in equity so as to see the effectiveness of the company’s investments.

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009*</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>15,12%</td>
<td>15,53%</td>
<td>8,19%</td>
<td>10,74%</td>
<td>-</td>
<td>5,26%</td>
<td>5,19%</td>
</tr>
<tr>
<td>Cost of Debt</td>
<td>1,00%</td>
<td>1,26%</td>
<td>2,26%</td>
<td>1,05%</td>
<td>-</td>
<td>0,60%</td>
<td>0,71%</td>
</tr>
<tr>
<td>ROE</td>
<td>18,28%</td>
<td>14,09%</td>
<td>13,48%</td>
<td>14,15%</td>
<td>-</td>
<td>7,85%</td>
<td>10,49%</td>
</tr>
</tbody>
</table>

* Data not available in financial accounts

For the first parameter it is clear that the crisis had a rather huge impact and the return of the investments have fallen since then. But the amounts obtained are
bigger than the cost of debt. The reasoning behind is that in order to cover the interest payable the company needs to generate an investment return bigger than that of the cost of financing. The second ratio has a similar, but not as dramatic, trend. Again, like net profits between 2005 and 2006, the returns in the capital decrease, but maintain rather constant until the crisis hits the country. Shortly thereafter, these yields begin to recover.

The next group of ratios will study the liquidity of the company. First of all, the analysis of the current ratio shows evidence that the company has liquidity and that it has increased over the years (after a slight decline in 2010). In addition, the company has maintained their solvency over the years.

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009*</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Ratio</td>
<td>2,497</td>
<td>2,478</td>
<td>2,686</td>
<td>3,049</td>
<td>-</td>
<td>2,904</td>
<td>3,221</td>
</tr>
</tbody>
</table>

*Data not available in financial accounts

Let’s move to the debt that the company holds. The quantity of debt is limited, although it has a decreasing pattern before the crisis began, it has increased these last years. With regard to the quality, the long-term debt they had before 2009 was very low, while the short-term debt amounted to nearly the totality of their liabilities. But after that, non-current liabilities have increased and the current ones have decreased, improving the quality of its debt.

All in all, there is difficulty in assessing if the data after 2008 has been mirrored just by the crisis or by their exit from the group of cooperatives.
4.4. Fagor Electrodomésticos’ Recent Fall

Fagor was created by a group of five students raised in Mondragon’s professional training. It was founded in 1956 and inspired by priest Arizmendiarríeta, it was turned into a cooperative in 1959, just prior to the economic takeoff experienced in Spain in the 60s. The company has been one of the main cornerstones of the Mondragon group and it has enjoyed years of economic prosperity. But since 2006, losses have been accumulating and this past 13 November the company was forced to call a creditors’ meeting.

The creditors’ meeting has not been Mondragon S.Coop.’s first and only solution. Since Fagor’s turmoil began members of other cooperatives decided to help cover those losses by reducing 1% of their salary. Fagor Electrodomesticos’ own workers already reduced theirs by 6,48% (Aranguren, 2013c). Apart from the 70 million Euros that were handed to the corporation, part of future revenues coming from the rest of the cooperatives were going to be placed in a special fund to help them (Aranguren, 2013b). Instead of restructuring the business and creating value added to their products, what Fagor did was simply cover part of its debt and it continued as it was (Mata, 2013b).

One of the main problems with regard to the workforce is that when regular workers become members of the cooperative, it is compulsory that they contribute with a capital, but in the event of bankruptcy, they are the last ones to recover such an investment. In this case, their capital amounts to 131,5 million Euros, which will be hardly recoverable (Mata, 2013a).
Nevertheless, an advantage coming from their membership is that the Mondragon group has the duty to reallocate them in another cooperative, irrespective of their business nature. Moreover, Irizar S.Coop. and Ampo S.Coop., formerly linked to the group of cooperatives, have decided to help them in this process (Aranguren, 2013a). Some of the partners that will not be reallocated will have the chance to opt for early retirement. But although it is beneficial for Fagor’s workers, temporary employees from other companies will be immediately dismissed (Oliden, K. and Aguirre, V. 2013).

After the contextualization, the annual reports of the company for the last eight years will be considered in order to strengthen the information provided by the latest news. The first analysis will focus on both sales and net income of the company.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (thousand €)</th>
<th>Sales Growth</th>
<th>Net Income (thousand €)</th>
<th>Net Income Growth</th>
<th>Inflation</th>
<th>Profit Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>809.383</td>
<td>0.37%</td>
<td>12</td>
<td>2241.67%</td>
<td>2.67%</td>
<td>0.01%</td>
</tr>
<tr>
<td>2006</td>
<td>812.394</td>
<td>-2.95%</td>
<td>281</td>
<td>1585.05%</td>
<td>4.22%</td>
<td>0.03%</td>
</tr>
<tr>
<td>2007</td>
<td>788.440</td>
<td>-13.77%</td>
<td>4.735</td>
<td>-7.52%</td>
<td>1.43%</td>
<td>0.60%</td>
</tr>
<tr>
<td>2008</td>
<td>679.905</td>
<td>-20.41%</td>
<td>4.379</td>
<td>-75.47%</td>
<td>0.79%</td>
<td>0.64%</td>
</tr>
<tr>
<td>2009</td>
<td>541.105</td>
<td>1.33%</td>
<td>1.074</td>
<td>-79.33%</td>
<td>2.99%</td>
<td>0.20%</td>
</tr>
<tr>
<td>2010</td>
<td>548.294</td>
<td>-16.36%</td>
<td>222</td>
<td>-2022.5%</td>
<td>2.38%</td>
<td>0.04%</td>
</tr>
<tr>
<td>2011</td>
<td>458.613</td>
<td>-4.21%</td>
<td>-4.268</td>
<td>-519.96%</td>
<td>2.87%</td>
<td>-0.93%</td>
</tr>
<tr>
<td>2012</td>
<td>439.303</td>
<td>-16,36%</td>
<td>-26.460</td>
<td>-519.96%</td>
<td>-6.02%</td>
<td>-6.02%</td>
</tr>
</tbody>
</table>

It is easy to see that both sales and net profits have diminished considerably over the years. The situation becomes even more complicated during the last two years as the net income falls to negative figures. The relation between both of these variables show that since the crisis began the part of sales absorbed by net income has diminished considerably.

A further analysis of profitability is going to be based in the return on both assets and equity in order to assess the efficiency of the investments made with
regard to the assets owned and employed by the company and the fund’s contributed by the members.

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>-0.38%</td>
<td>3.29%</td>
<td>1.32%</td>
<td>0.92%</td>
<td>0.55%</td>
<td>1.05%</td>
<td>2.82%</td>
<td>0.41%</td>
</tr>
<tr>
<td>Cost of Debt</td>
<td>1.07%</td>
<td>4.69%</td>
<td>0.09%</td>
<td>0.004%</td>
<td>-</td>
<td>-</td>
<td>0.96%</td>
<td>0.81%</td>
</tr>
<tr>
<td>ROE</td>
<td>0.01%</td>
<td>0.09%</td>
<td>1.48%</td>
<td>1.57%</td>
<td>0.40%</td>
<td>0.09%</td>
<td>-1.77%</td>
<td>-13.00%</td>
</tr>
</tbody>
</table>

With regard to the return on the assets of the company, it has been positive for most of the years, except for 2005, but it is quite small. However, surprisingly it has been able to cover the interest costs borne from 2007 on. This last 2012, the situation seems to have complicated and the company is no longer able to pay off the interest by the yield of its investments. For the return on equity, until 2010, the percentage yield has fluctuated around 1.5%, being still too low to be beneficial. And in the last two years, these returns have turned out to be negative as a result of having negative profits.

The next part is going to focus on the liquidity of Fagor Electrodomésticos. First of all, the current ratio shows that in the given case, the amount of current assets is able to respond to current liabilities, but the level of coverage is rather limited particularly when the ratio is smaller than 1. Furthermore, solvency of a company can be seen if the amount of total assets is bigger than that of total liabilities. For Fagor, the amount obtained means that it is in fact solvent, but it has little room for error.

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Ratio</td>
<td>0.988</td>
<td>1.111</td>
<td>1.307</td>
<td>0.931</td>
<td>0.884</td>
<td>1.124</td>
<td>0.781</td>
<td>0.768</td>
</tr>
</tbody>
</table>
Continuing with the evaluation, the quantity of the debt held by the company is incredibly high; it amounts to 65% in its best and peaks up to 78% in 2012. So basically, there is little capital and most of the assets of the company are responsible for covering the debt.

In conclusion, the real situation of Fagor Electrodomésticos was scary and although the whole Mondragon S.Coop. has made several attempts to save it, it is reasonable that finally they decided to let it fall. As many argue, there are limits to solidarity when other companies’ viability is compromised (Goienetxea, 2013).

For many, Fagor’s situation has not been a failure of the cooperative model, but instead the terrible management carried out has been the sole responsible. Nevertheless, the question that remains is how this crisis is going to affect the rest of the cooperatives that are part of the group.

In the first place, the group believes that the impact is going to be limited because of its diversified clientele. Not being a holding, but an autonomous and independent group of businesses will prevent a massive closing down (Mata, 2013b; Gisasola, 2013). But there are other consequences for Mondragón S.Coop. Its cooperatives will have to increase the contribution by 1,5% they make to Lagun Aro’s voluntary social welfare entity. The reason for this is that Fagor’s 600 partners who are thinking of retiring early, will have the right to withdraw their pension and those funds will have to be filled again (EFE, 2013).
Other indirect aspects are linked to external creditors. Formerly, Mondragón S.Coop. had always covered the debts incurred by companies that had closed down, but in the case of Fagor, it has decided not to follow the same path and held the company responsible for it. Hence, other cooperatives that are having financial trouble may not receive credit as easily as before, as banks may fear that the group may not guarantee the repayment of debt (Barandiarán, 2013).

But problems are not only internal and the effect of Fagor’s fall will be perceived by its suppliers. It had 200 dependent companies, from which 50 can suffer severely due to their lack of diversification and the fact that Fagor was their only client (Aranguren, 2013d).

4.5. The Unknown Case of Grumal

The history of this kitchen and bathroom furniture producer dates back to 1979 (Grumal). Although in 1999 it was previously acquired by Masco Corporation, a North American multinational, Fagor Electrodomésticos managed to buy it in 2005. Fagor’s intention was to take advantage of the industrial synergies that this acquisition might offer, as well as to improve its market position with regard to construction and logistics.

Both companies reached an agreement to turn Grumal into a cooperative in a period of five years because its management believed that the type of companies that involve group contributions and mutual commitment can help find a suitable response to the crisis (Mondragon S.Coop. 2005; Secretaría de Estado de Comercio...
Nevertheless, the project of becoming a cooperative has never been achieved, as Grumal’s current 150 employees continue not being partners.

Fagor Electrodomésticos’ recent fall has dragged some other companies with it, being Edesa and Grumal some of them. Recently, Fagor decided to include Edesa S.Coop., one of its many subsidiaries, in the creditors’ meeting. The parent company claimed that the 3 million Euros that the regional Government was going to endorse were not enough to guarantee its viability. In the case of Grumal, it was included in the creditors’ pre-meeting last 18 October, but the Basque Government and the workers’ themselves are working on a continuity plan hoping that the most profitable areas of the company will survive (‘Grumal también teme por su desaparición’, 2013).

Although Fagor is going to include Grumal in the creditors’ meeting sooner or later, this report will study if such disassociation is viable and if Fagor should let it out of it.
Data from fiscal year 2012 is not available and thus, the analysis will take into account the company's track over the previous three years. The first two variables to be considered are sales and net profits obtained from its operations.

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales (€)</strong></td>
<td>18,410,000</td>
<td>10,136,000</td>
<td>8,458,000</td>
</tr>
<tr>
<td><strong>Sales Growth</strong></td>
<td>-44,94%</td>
<td>-16,55%</td>
<td></td>
</tr>
<tr>
<td><strong>Net Income (€)</strong></td>
<td>-2,244,000</td>
<td>-2,098,000</td>
<td>-3,990,000</td>
</tr>
<tr>
<td><strong>Net Income Growth</strong></td>
<td>-6,51%</td>
<td>-90,18%</td>
<td></td>
</tr>
<tr>
<td><strong>Inflation</strong></td>
<td></td>
<td>2,99%</td>
<td>2,38%</td>
</tr>
<tr>
<td><strong>Profit Margin</strong></td>
<td>-12,19%</td>
<td>-20,70%</td>
<td>-47,17%</td>
</tr>
</tbody>
</table>

It is observable that sales, as well as net income, have been falling during all these years in a dramatic way. In addition, profits obtained at the end of the exercise are negative for the periods analyzed. The company was hit harshly by the economic crisis and its response was to seek for competitiveness in international markets (Secretaría de Estado de Comercio, 2009). But evidence is that Grumal has not been able to recover from such a downturn. Considering that net income has been negative since 2009, the profit margin shows that the company has decreased considerably the contribution from sales to the final profit.

With regard to the return on assets and equity, results are not very promising. The investments undertaken by the company had an unfavorable response for Grumal.

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ROA</strong></td>
<td>-9.32%</td>
<td>-10.83%</td>
<td>-26.57%</td>
</tr>
<tr>
<td><strong>ROE</strong></td>
<td>-26.07%</td>
<td>-146.30%</td>
<td>467.76%</td>
</tr>
</tbody>
</table>

*Bear in mind that equity in fiscal year 2011 is negative.

Furthermore, current assets of the company are not able to meet current liabilities, and this ratio has been decreasing since the economic turmoil began. Its
solvency has also been damaged, although in 2009 and 2010, total assets were able to cover all the debt owed by the company.

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Ratio</td>
<td>0.897</td>
<td>0.503</td>
<td>0.395</td>
</tr>
</tbody>
</table>

Finally, the quantity of the debt held by Grumal in 2011 was more than its total liabilities and funds, due to the negative amount of capital funds. This amount has increased in recent years, and has nearly doubled the value of year 2008.

In conclusion, Grumal S.L. has a limited scope for progress and the chances that it will be able to continue its business on its own are very little. Therefore, it is reasonable that Fagor Electrodomésticos includes the company in the list for the creditors' meeting. A further problem for its employees is that they will not enter Fagor's reallocation plans because they are not partners of the cooperative group (‘Garitano estudia si es viable ayudar a Grumal como Bizkaia ha hecho con Edesa’, 2013).

All in all, it is reasonable to argue that in these cases, there are not real consequences from joining or leaving Mondragon S.Coop. The example of Orona shows that it has enjoyed economic prosperity since its foundation and being part of the group may have contributed to such success. On the other hand, there is Irizar, which even after leaving the group has continued with its prosperous business, so it is questionable the scope of the benefits ensured by the group.

On the negative side, there is Fagor Electrodomésticos who has not been able to respond appropriately to the economic downturn and the policies followed by its
management have led to an imminent and voluntary creditors’ meeting. It is not an isolated case as it has dragged many other companies such as Grumal with it, being the latter unlikely to ensure its viability.

5. Conclusion

There is no perfect economic model that all individuals would agree with. But the existing ones have to constantly change and make improvements in order to keep on track and provide updated solutions to the problems that may arise in the near future (Freire, 2013).

With regard to cooperatives and their socialist vision, the first critic that can be made is to the way in which they are led. The General Assembly is the sole responsible for choosing the board of directors and more often than not, the requirements are limited to personal judgments rather than professional competence (Cancelo, 2013).

This situation has had an impact in the original values of cooperatives. Nowadays, the primary requirement of information flow is not a reality anymore; companies have opted for less transparent policies that leave workers out (Olabe, 2013). The quality of participation consequently erodes and workers are no longer prepared to respond duly. As a result, the process of decision making becomes more vertical and shortens to the will of the board of directors, losing the essence of such participatory democracy (Rodríguez Vaz, 2013).
Furthermore, the lack of information and the double responsibility of the members delay the speed of making decisions. Whenever a quick response is needed, the horizontal structure will complicate the process and the optimal solution may be too late to implement (Saratxaga, 2013).

In conclusion, there is an urgent need to go through the cooperative model once again and correct the difficulties it presents. Although it has been a symbol of social justice, its management has to be adapted to the current time. The suitability of these changes may finally give the status it has always looked for.
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