

**ENABLING POLICY ENVIRONMENTS FOR CO-OPERATIVE
DEVELOPMENT: A COMPARATIVE EXPERIENCE**

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By

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ABSTRACT

This dissertation explores the particular evolution of an organization, the Mondragon Co-operative Corporation, to shed light on the co-operative development process, and compares some of its complexities to the Manitoba co-operative sector. This study uses historical, political, and socio-economic research, institutional analysis, policy and legal analysis, and semi-structured interviews to better understand the co-operative development process from a critical and interdisciplinary perspective.

This study uncovers the importance of institutional frameworks in understanding the development of the Mondragon group. By analyzing its well-known development story through this critical and interdisciplinary lens, this dissertation helps rethink the assumptions of much of the literature on co-operative and policy development that often overlooks the study of this phenomenon. Co-operative development factors and strategies widely discussed in the literature often fail to analyze the invisible cultural assumptions that underpin and help determine the development process. By studying the extent to which Mondragon's development is deeply embedded in and shaped by its cultural, legal, and institutional contradictions, this dissertation aims to rethink the co-operative development phenomenon.

This study finds that institutional frameworks are crucial to understand co-operative development choices and strategies. The contradictions and complexities of institutional frameworks create room to counter the status quo. The study of the Mondragon group tells us that co-operatives can unknowingly reproduce contradictions while challenging the dominant logic to seek change. The influence of institutional contradictions and complexities is highly important to make sense of co-operative development behaviours as well as to understand how institutions change in society.

This study concludes with a comparison of the Manitoba co-operative experience in the light of the Mondragon case, and offers concluding thoughts and recommendations for the Manitoba co-operative sector.

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TABLE OF CONTENTS

PERMISSION TO USE	i
ABSTRACT	ii
ACKNOWLEDGEMENTS	iii
TABLE OF CONTENTS	iv
LIST OF TABLES	vi
LIST OF FIGURES	vii
LIST OF APPENDICES	viii
LIST OF ABBREVIATIONS	ix
 1. CHAPTER ONE: BUILDING AN INSTITUTIONAL AND PUBLIC POLICY APPROACH TO CO-OPERATIVE DEVELOPMENT	 1
1.1 Introduction: Why study co-operative development?.....	1
1.1.1 Global context for co-operative development studies.....	2
1.1.2 Why study policy and institutional frameworks in Spain?	8
1.2 Redefining co-operative identity for the 21 st century	12
1.2.1 Social cohesion and social capital in co-operatives	17
1.2.2 Co-operatives' dilemmas: principal-agent problem, member conflicts and isomorphism.....	18
1.2.3 Co-operatives and investor-owned firms	20
1.3 Co-operatives, collective action and responses to globalization.....	22
1.4 Co-operative development.....	26
1.4.1 Public policy and legislation	35
1.5 Research relevance.....	38
 2. CHAPTER TWO: THEORETICAL FRAMEWORK & METHODOLOGY.....	 41
2.1 Research Questions.....	41
2.2 Epistemology.....	44
2.3 Theoretical Perspective.....	49
2.4 Methods	55
2.4.1 A personal reflection note on methodology	57
2.5 Conclusion.....	58
 3. CHAPTER THREE: CO-OPERATIVE DEVELOPMENT OF MONDRAGON IN THE BASQUE REGION (SPAIN).....	 60
3.1 Historical context: role of the Spanish dictatorship and socio-economic depression ...	61
3.1.1 Manufacturing consent to domination during the dictatorship years.....	67
3.2 The Basque uniqueness and a culture of resistance.....	69
3.3 Father Jose Maria Arizmendiarieta and Catholic Social Doctrine	72
3.4 Mondragon Co-operative development, 1956-1959.....	81
3.4.1 Legal origins of the co-operative figure in Spanish legislation, 1906-1942.....	83
3.5 Conclusion	88

4. CHAPTER FOUR: CO-OPERATIVE DEVELOPMENT OF MONDRAGON IN THE BASQUE REGION (SPAIN): A VALUES-BASED APPROACH.....	90
4.1 Caja Laboral Popular: The cultural influence in institutional forms.....	91
4.1.1 Bringing to life a democratic ideal of co-operation through largely undemocratic means: forgery of documents, charismatic inculcation of young minds, and the innovative, legal but undemocratic structure of Caja that does not allow for town residents' membership.....	93
4.1.2 A centralist and hierarchical vertical integration of the co-operative group: Caja as the hub organization, the contract of association, and the unusual harmonization of profits and losses among the associated co-ops	100
4.1.3 Caja Laboral Popular Co-operative Development Policy	105
4.2 Mondragon Co-operative Group's Development Strategy: The top-down, solidarity framework	112
4.2.1 Internationalization strategy of private sector response to globalization as a means to save the co-ops	119
4.3. Mondragon Co-operative Support Organizations	121
4.4 Spanish and Basque public policies to support co-op development	123
4.4.1 Tax advantages for co-ops	128
4.4.2 Hybrid co-operative legal forms: Mixed Co-op and Anonymous Labour Society ...	129
4.5 Basque co-operative support organizations	130
4.6 Financing Mechanisms	130
4.6.1 Inter-co-operative Solidarity Fund. Central Co-operative Fund. MCC Investments. MCC Foundation.	130
4.7 Conclusion.....	132
 5. CHAPTER FIVE: CONCLUSIONS: TWO CONTRASTING VIEWS OF CO-OPERATIVE DEVELOPMENT.....	137
5.1 A contradiction in co-operative development in Manitoba: collectivism vs. individualism in the process of institutional change	141
5.1.1 Collectivism versus individualism: a socio-cultural tension captured in policy	148
5.2 Conclusion.....	151
 REFERENCES.....	154
 APPENDICES	183

LIST OF TABLES

Table 1.1 The Canadian Co-operative Association's Strategic Pillar Model	32
Table 3.1 Number and Type of Co-operatives in the Basque Country	62
Table 5.1 Corporate income tax rates since 1999	148

LIST OF FIGURES

Figure 4.1 Organizational Structure of Mondragon (until 1991)	116
Figure 4.2 Organizational Structure of Mondragon (since 1991).....	118

LIST OF APPENDICES

APPENDIX 1: Question Template	183
APPENDIX 2: Interview Consent Form	187
APPENDIX 3: Telephone and Email Consent Form	189
APPENDIX 4: Transcript Release Form	191
APPENDIX 5: Mondragon Co-operative Support Organizations	192
APPENDIX 6: Spanish and Basque Public Policy To Support Co-operative Development ..	199
APPENDIX 7: Basque Co-operative Support Organizations	207
APPENDIX 8: Indivisible Reserves in The Quebec Co-operative Act	211

LIST OF ABBREVIATIONS

CCA: Canadian Co-operative Association
CED: Community economic development
CSR: Corporate Social Responsibility
ICA: International Co-operative Alliance
ILO: International Labour Organization
MCA: Manitoba Co-operative Association
MCC: Mondragon Cooperative Corporation
UN: United Nations
WTO: World Trade Organization

CHAPTER ONE

INTRODUCTION: BUILDING AN INSTITUTIONAL AND PUBLIC POLICY APPROACH TO CO-OPERATIVE DEVELOPMENT

1.1 Introduction: Why study co-operative development?

This interdisciplinary and comparative dissertation investigates co-operative development in two different contexts—Spain and Manitoba, Canada—with special emphasis on the roles of public policy and legislation. The trajectories of co-operative development in these contexts are as interesting for their similarities as for the important differences that help clarify factors and strategies that foster or frustrate their development. By analyzing those critical components of the enabling environment in each context, this dissertation focuses on institutional frameworks and their impacts on the development of co-ops in order to inform co-operative development systems in Canada and in Manitoba in particular. In exploring the policy domain, this study will be attending to the socio-cultural factors in Spain that have predisposed them to achieve remarkable co-operative development and innovative co-operative policy.

This first chapter situates in relation to the broader literature the object of study, co-operative development, its critical components, and the role of institutional frameworks in development. It starts by explaining why studying co-operative development factors and strategies is timely in the light of previous and current waves of globalization and the world economic, financial, and environmental meltdown of 2008, which, for many, unveiled an underlying logical contradiction in the dominant economic theory (McMurtry, 2009; Restakis, 2010). In periods of socio-economic upheaval, an increasing gap between the rich and the poor, environmental degradation, market failures and state retreats, the co-operative movement represents hope to address many important social, economic, and environmental issues (Birchall & Hammond Ketilson, 2009; International Labour Organization, 2002; United Nations, 2010). This chapter records the important role co-operatives can play to sustain communities in the midst of the global economic downturn, and provides evidence that co-operatives deserve government and institutional

support—an argument that can be strengthened by the research on co-operative development, public policy, and legislation represented in this dissertation. This chapter lays out the theoretical ground for the uniqueness of these socio-economic organizations. It explores the co-operative identity, its collective action nature, its problems—including conflicts between democratic control and market competitiveness, principal-agent dilemmas (Fulton & Laycock, 1990), isomorphic pressures (DiMaggio & Powell, 2004), and top-down development (Pollet & Develtere, 2004) —and its differences from investor-owned firms. Finally, the research relevance and some methodological issues are explained.

1.1.1 Global context for co-operative development studies

A deeper understanding of co-operatives—“autonomous association[s] of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise” (ICA, 1995)—and their ability to satisfy those community needs and aspirations is particularly important in the context of globalization. Indeed, co-operatives arose in response to an earlier wave of globalization in the nineteenth century that was characterized by industrialization, unfettered markets, and their disastrous socio-economic consequences for ordinary people. Those consequences included poverty and social exclusion for those transitioning from independent artisanal work to wage labour to form a new working class, who lacked “wealth, economic security, and political or economic power” (Fairbairn, Bold, Fulton, Hammond Ketilson, & Ish, 1991, p. 6). This new working class did not have any of the social supports, such as health insurance, pensions, labour security, of the welfare state and thus was often exploited by employers paying low wages in unsafe working conditions, or abused by merchants selling adulterated food products, and creditors offering predatory loans (Fairbairn, 1992; McMurtry, 2009). It was in this context that a group of workers formed in 1844 the first co-operative in Rochdale, England, that sought answers through mutual self-help to “the social dislocations of the industrial revolution,” which were not being addressed by the private sector or the government (Fairbairn, 1992, p. 4). They became known as the Rochdale Society of Equitable Pioneers. Their experience is as relevant in current times as it was then, as much of their lived reality is being repeated today.

The effects of the economic, financial, and environmental storm are tangible in the lives of ordinary people who lack or have inadequate employment, access to clean drinking water, fair prices for their crops, shelter, and access to education for their children (Restakis, 2010). These are the daily struggles for billions of people in developed and underdeveloped countries alike. But these multiple crises have also opened up new opportunities to highlight the important role of co-operatives as "a sustainable form of enterprise" that are better able to weather the storm than other types of businesses, and able to sustain communities by maintaining the provision of livelihoods and essential services (Birchall & Hammond Ketilson, 2009, p. 3; Findlay, 2012). Evidence shows that co-operatives are vital to communities as they continue to carry out business and lessen the impacts of the crisis while their competitors close down (Birchall & Hammond Ketilson, 2009).

The social turmoil and mass protests in Seattle at the World Trade Organization conference in November, 1999, the G20 and G8 in Toronto and Huntsville, Canada, in June 2010, and the massive popular demonstrations at the Copenhagen and Kyoto meetings are symptoms of the negative effects of globalization (Restakis, 2010). Although the negative consequences have eroded socio-economic structures and exacerbated inequality, a positive consequence, as in the nineteenth century, has been the mobilizing of new communities in search of values, local answers, and alternative socio-economic models. Eddy (2009) highlights a return to the "grassroots – not the political parties or governments, but from social movements mobilising around social justice, the environment, and labour market protection" after the 2008 global meltdown (p. 6). Co-operatives are precisely the locally rooted organizations that adhere to community values such as "equity, democracy, social justice and sustainability," and entail a values-based economic rationality well suited to finding local answers "through business operations" that can address some of those issues (Pollet & Develtere, 2004, p. 12). Recently, Argentina went through a severe economic, political, and social crisis as a result of the failure of neoliberal policies imposed on the country by the International Monetary Fund and the World Bank, which led to unemployed citizens taking over closed factories and converting them into worker co-operatives to find answers to their acute socio-economic situation (Restakis, 2010; Ruggeri, 2005). Around the world, communities have been looking for solutions in the social solidarity economy movement, using the co-operative model in most cases as an instrument for

economic emancipation, social change, and environmental sustainability. For instance, the National Bank Transfer Day (November 5, 2011) encouraged Americans to move their savings from traditional banks to credit unions to protest unfair or excessive business practices. Another example of social solidarity economy is the Evergreen Cooperative Initiative of Cleveland, Ohio. Started as a response to the global economic downturn, Evergreen is a group of three worker co-ops committed to creating sustainable employment in a low income area of the city (Evergreen, 2012). In the midst of the recent global crisis, a renewed interest in co-operative development has been noted (Birchall & Hammond Ketilson, 2009; Great Transition Initiative, 2012; ILO, 2012). Indeed, globalization has created the conditions for renewed co-operative development studies.

Today, the case for the development of co-operatives as the method to expand "economic democracy" worldwide is more relevant than ever (Restakis, 2010, p. 3). Globalization and its periodic crises render communities relatively powerless in the face of political and economic events elsewhere (Fairbairn et al., 1991). Yet the structure of co-operatives addresses powerlessness by finding a place for democracy in the world of economics as they are member-owned and democratically controlled, thus giving ordinary people the chance to use ownership to decide their own destinies (Laycock, 1990). The spread of 2011 "Occupy" movements demanding more equitable economic systems highlights how propitious the times are for co-operatives as "equitable economic models" proposing a more sustainable socioeconomic development model (Whitman, 2011, p. 1). Co-operatives embody "economic democracy" as they improve people's ability to exercise democratic values of access and participation while embedding democracy in the economic ownership of the organization as well as the distribution of its wealth (Laycock, 1990, p. 89).

The renewed interest in co-operatives in the context of globalization and economic and financial meltdown is supported by a history of co-operation as a behaviour that is intrinsic to humans and humanity. Co-operative organizations can be found almost anywhere in the world since "co-operation is at least as instinctive to human beings as competition" (Craig, 1993; MacPherson, 2009, p. 214). In a broad sense, "co-operation is as old as the human species," notes Birchall (1994), as the survival of human beings in ancient times was tied to working together to pursue

food, shelter and collective defense (p. 1). Co-operatives represent an organizational structure that formalizes the principles of co-operation to help find collective answers for a particular group's problems and goals (Craig, 1993). Often arising to satisfy unmet needs, and sustain popular aspirations, co-operatives fill gaps created by market failure or the withdrawal of public services (Fairbairn et al, 1991). Unfortunately, mainstream economic ideology has over-emphasized the competitive and individualistic aspect of human nature as taken-for-granted natural facts, and relegated co-operation to a marginal place in educational institutions and in popular culture (Laycock, 1990). Indeed, co-operative forms of ownership are rarely present in educational curricula, and mass media highlight "heroic" individual achievements while portraying co-operative behaviours as "irrational" or "just plain stupid" (Laycock, 1990, p. 81). Similarly, Piet Moerland, chair of Rabobank and president of the European Association of Cooperative Banks, argues that the co-operative model is underestimated not only in the media, but also by legislators and their regulatory frameworks (Whitman, 2011).

Underlining the relative invisibility of the co-operative model, Stilwell (2009) notes that universities and think-tanks remain sharp promoters of "orthodox economics" even after the 2008 global economic meltdown that demonstrated the failure of neoliberal policies based on classical economic theory (p. 11). Thus, educational institutions maintain support for mainstream thinking, and do not challenge standard curricula that train managers within the dominant economic theory without giving space to other views and economic models. In addition to Piet Moerland, Dame Pauline Green, current president of the International Co-operative Alliance, has emphasized how little known co-operatives are, specially the number of lives affected by them and their market value (Whitman, 2011). Also, co-operatives remain insufficiently known and understood in business schools in particular (Findlay, 2012; McMurtry, 2009). A study conducted by the Social Economy Centre at the University of Toronto, for example, found that co-operatives are almost absent in economic textbooks of the Ontario High Schools and similarly unknown in university business school programs—despite being a significant force in Canadian economic and social life (Quarter, Schugurensky, McCollum & Mook, 2007).

Competition is not the only natural way to interact, organize, and operationalize our lives since human urges to compete and achieve are possible only because their “basic needs” are already covered by the “taken-for-granted co-operation” of each other in our society (Birchall, 1994, p. 1). Kohn (1992) praises the societal benefits of co-operation and argues that “the difference between co-operation and competition is the difference between listening to each other's points of view and twisting each other's arm” (p. 157). Highlighting only competition as the best way to proceed socially, politically, and economically misses the fact that competition does not exist without at least some form of co-operation, as both are usually present in social interaction and can be found in different degrees in any group and any activity (Craig, 1993).

Having established that co-operation is a natural element of human life and that competition is neither the natural nor inevitable *modus operandi*, here the focus is on how and why co-operatives are valued and why they merit further investigation and investment. The co-operative model is the formal organizational structure recognized in the literature as a sustainable enterprise model capable of securing and sustaining livelihoods and services in communities. Co-operatives' longevity is highlighted by Whitman (2011) as the survival rate of start-up co-operatives is also higher than their private sector competitors. According to the Canadian Co-operative Association (2007), “after five years, the survival rate of a new co-operative enterprise is almost twice that of an investor-owned company” while also facilitating investment in their communities through the creation of employment, donations, and sponsorship (Government of Quebec, 2003). Evidence suggests that co-operatives in all sectors outlive their competitors, and “the rate of survival of new start ups is better” (Birchall & Hammond Ketilson, 2009, p. 13). The co-operative movement represents over 1 billion members around the world (ICA, 2013), exists in most countries, and is “the most durable and powerful grassroots movement in the world” (Restakis, 2010, p. 3). Co-operatives are able to maintain the “social contract” of communities by guaranteeing the availability of employment, supporting local entrepreneurship, and “improv[ing] quality of life—without sacrificing competitiveness” (Lotti, Mensing, & Valenti, 2006, p. 4). In addition, co-operatives around the world “provide over 100 million jobs, 20% more than multinational enterprises,” which speaks to the potential of co-operatives to meet aspirations and income needs in local communities (ICA, 2010). Considering the importance of

co-operatives, this study explores how these organizations might be better supported to adequately develop and grow.

Further, international organizations have recognized co-operatives as enterprises deserving of institutional support by giving special attention to their promotion and development. The General Assembly of the United Nations issued numerous resolutions acknowledging the major role co-operatives around the world play in the economic and social development of communities (UN, 2010). For that reason, the UN Resolution 54/123 specifically “urges” the governments of the UN's Member States and specialized agencies to provide a supportive environment for the establishment and development of these organizations considering their influence, particularly “in the eradication of poverty, the generation of full and productive employment and the enhancement of social integration” (2000, p. 2). Several governments (Bolivia, Burundi, Czech Republic, El Salvador, Finland, Israel, Panama, Philippines, Portugal, Slovakia, Turkey and the United States) and international organizations (International Monetary Fund, World Trade Organization, World Health Organization, Food and Agriculture Organization of the United Nations, International Labour Office; International Maritime Organization; United Nations Conference on Human Settlements (Habitat); United Nations Conference on Trade and Development; United Nations Educational, Scientific and Cultural Organization; United Nations Environment Programme; United Nations Industrial Development Organization, and the ICA) responded to that call committing institutional support for co-operatives and to the creation of more adequate environments for co-operatives to grow, among other objectives (UN, 2001, p.13-14).

Along those lines, the UN (2001) exhorted governments to “keep under review the legal, judicial and administrative provisions governing the activities of cooperatives,” with the intention of levelling the playing field in relation to other forms of enterprise (p. 13). Further, the UN (2010) declared 2012 the International Year of Co-operatives with the intention to “raise awareness of their contribution to social and economic development, in particular recognizing their impact on poverty reduction, employment generation and social integration,” and to support the growth of these organizations (p. 1). Similarly, the ILO issued a recommendation encouraging governments to pursue co-operative development “recognizing the importance of cooperatives in job creation,

mobilizing resources, generating investment and their contribution to the economy” (2002, p. 1). As well, the ILO stated that co-operatives' "documented resilience to crisis and thus sustainability, and their particularity of being principles-based enterprises that are member-controlled and led are increasingly drawing the attention of governments, policy makers and citizens around the world" (2012, p. vii). Recently, a World Bank (2008) report also stressed the important role financial co-operatives or "promising institutions" play in delivering financial services to rural areas in developing countries, thus facilitating agricultural development (p. 146). The report views positively the adoption of the co-operative model for effective and sustainable agricultural development as it highlights the example of "producer cooperatives" that were at the core of the "recent expansion of organic export production in East Africa" (World Bank, 2008, p. 189). The report also calls for a "proactive state" to support the development of co-operatives as producer associations in the context of pursuing an effective "agriculture-for-development agenda" (World Bank, 2008, p. 156). Promotion of co-operatives and adequate support for their development, all these organizations argue, is relevant to the economic and social development fate of communities worldwide.

1.1.2 Why study policy and institutional frameworks in Spain?

There is general agreement in the literature about the components, such as public policy and legislation, financial mechanisms, technical assistance, co-operative sector federations or umbrella organizations, research and education, and socio-cultural factors, that lead to co-operative development (Canadian Co-op Association, 2007; Cornforth & Thomas, 1990; Fairbairn, Fulton, Hammond-Ketilson, Krebs, & Goldblatt, 1993; Meek & Woodworth, 1990; Pollet & Develtere, 2004). However, the way each development component and strategy plays out varies depending on particular historical, political, economic, and socio-cultural circumstances of each particular segment of the co-op movement.

It has been consistently argued that public policies and legislation can significantly contribute to a supportive environment that addresses obstacles and sets in motion the mechanisms necessary for co-operative development, including financial mechanisms, technical assistance, co-operative umbrella organizations, research and education (Adeler, 2009; Axworthy & Perry, 1988;

Fairbairn et al.,1993; Harris, Fulton, Stefanson, & Lysyshyn, 1998; Laycock, 1987; Loxley & Simpson, 2007; Vaillancourt, 2008). However, insufficiently addressed in the literature has been public policy and legislation as a consequence of political, economic, historical, and socio-cultural processes that influence social actors. Although there is much to be learned from the traditional view of policy, positivist approaches too often fail to analyze policy through critical, comparative, and interdisciplinary lenses. This dissertation intends to fill that gap. For this reason, within the broad co-op development phenomenon, this dissertation pays special attention to the dynamic socio-cultural and political-economic process producing public policy and legislative instruments to aid the development and growth of the co-operative sector.

Although the study of co-op development factors is undoubtedly important to co-op development, the literature fails to analyze institutional frameworks and their impact on co-op development. There is no single definition of institutions, but for the social sciences, institutions are "social structures that have attained a high degree of resilience . . . ,and . . . are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life" (Scott, 1995, p. 33). Institutions can be as diverse as, for example, the legal system, government, schools, family, marriage, mass media, charitable organizations, or businesses. Any type of structure that organizes the behaviour of individuals with a specific social goal, whether formal or informal, can be an institution. Institutions constrain or enable behaviour as a consequence of their three pillars: the regulative, which involves the capacity to establish rules, and formal sanctions; the normative, which includes values and norms to guide behaviour through norms of acceptability, morality, and ethics; and the cultural-cognitive, which encompasses thought patterns and world views (Scott, 1995). These three pillars of institutional analysis provide a comprehensive framework for understanding the actions and decisions within an institution (Scott, 1995). As themselves social constructs, institutional frameworks have cracks or fissures that open up the opportunity to challenge the status quo they represent. Those cracks or fissures are the consequence of "the erosion of beliefs and rules and their replacement by new models and forms" perhaps "due to endogenous strains and conflicts or to the intervention of external forces or actors" that permit change (Scott, 2005, p. 414). As Scott (2005) reminds us, "change is often initiated by the collective mobilization of disadvantaged actors who challenge existing systems and truths" (p.

414). Change can also happen "when boundaries buffering social fields or sectors are breached, allowing ideas and actors from one sector to penetrate another" as for example through an awareness-raising or conscientization process among social actors (Scott, 2005, p. 414).

As social actors challenge the dominant logic, they remain nevertheless implicated in it and reproduce contradictions in the cultural and legal domain while trying to effect change. Institutional frameworks are structures or systems that provide stability to social behaviour. Some social actors realize that certain goals are better pursued through institutional action and construct systems that can constrain their action (Scott, 2005). While stability and conformity are elements of institutions, conflict and change are also components of institutions that shape new institutional structures and opportunities. Co-operatives are institutions reactionary to the dominant logic and will likely reproduce contradictions as they pursue change. Those contradictions are overlooked by the co-op development literature, and yet they impact co-operative development. This dissertation fills this gap in the literature.

The Spanish experience, for example, makes it clear that the institutional framework had fissures that produced an opportunity for social actors to create more advantageous conditions (Franco's Spain was not kind to co-operatives). Similarly, political, social, economic, and cultural processes all play roles in co-operative development that are not reducible to the economic determinations related to the market (and its failures) as a dominant feature of social life.

This dissertation builds on and extends the work of a considerable number of scholars who agree that the Spanish Mondragon Co-operative Corporation is an exceptional example of a co-operative development system, which features innovative policy and legislative mechanisms that need to be better understood (Cornforth & Thomas, 1990; Logue, 2006; MacLeod, 1997; Matthews, 1999; Morrison, 1991; Whyte & Whyte, 1991). Their studies, however, do not share my emphases on institutional frameworks. Previous studies have explored the internal policy mechanisms in Mondragon, but in the context of the co-op development factors (Logue, 2006; MacLeod, 1997; Matthews, 1999; Morrison, 1991; Whyte & Whyte, 1991), missing, in that way, the underlying taken for granted assumptions of social actors that help produce policy.

This dissertation explores the evolution of the Spanish Mondragon Co-operative complex using cultural lenses to help us rethink co-op and policy development in a much rehearsed but insufficiently understood development process. Since the diffusion of innovative policy strategies has been limited by linguistic, geographic, and cultural barriers, the analysis of successful (or not) policy strategies applied in this context will highlight important lessons to be learned by Canadian audiences.

Due to the complexity of interdisciplinary and comparative research, it is necessary to distinguish foreground material treated in depth and background material mentioned only to give a meaningful context for central material. Since embeddedness (Polanyi, 1957) of economic rationality into the social realm tends to occur from the local to the national and global setting, this study addresses only regional co-operative development systems and public policy domains, while giving a snapshot of national public policy features that have significant influence in the local or regional setting and help put the research in perspective. The Spanish co-op movement is located in a unitary state with varying degrees of decentralization that somewhat respected the historic regional cultures and peculiarities, and its regions are legal entities similar to provinces in Canada. However, the Canadian co-operative movement is situated in a federal state with decentralized provinces, and is marked by a great divide between the Anglophone co-op movement and the Francophone (namely in the province of Quebec) co-op movement.

For those reasons, in the case of Spain, the research targets the Mondragon co-operative group development system in the Basque region along with its development factors and strategies without treating individual cases of co-operative failures or successes, but rather addressing broad development conditions and issues at the regional level. A 55-year time period will be addressed in this dissertation beginning around the founding time of the first Mondragon co-operative in 1956. Also, it is necessary to review national laws and policies when they affect the regional co-operative development realities. As background material, attention is given to historical, political, religious, and nationalist contexts of the Mondragon co-operative group in the Spanish Basque region to the extent that it helps to situate the research to achieve a more accurate and complete picture.

1.2 Redefining co-operative identity for the 21st century

The current wave of globalization has created an incentive for co-operative development, as co-operatives create economic democracy through businesses that are owned and controlled by their members for mutual benefit. Governed by the principle of “one member, one vote,” co-operative members vote equally based on their individual membership rather than their share of capital invested in the enterprise. Participatory democracy and member control of the organization, among others, are features coming from the international co-operative principles and values building on those of the Rochdale Society of Equitable Pioneers, the first co-operative organization constituted in 1844 in England (Fairbairn, 1992) in the socio-economic turmoil caused by industrialization and free markets. Britain was hit first by this phenomenon before it spread to the rest of the world (Birchall, 1994). Consequently, the Rochdale Society of Equitable Pioneers emerged as the first successful co-operative response to globalization. The Rochdale Pioneers crafted a set of business practices based on moral rules of conduct “emphasizing quality, honesty, market prices, cash trading [...] democratic governance, provision of education and information to members” (Fairbairn, 1992, p. 18-19). Since the Rochdale Pioneers, co-operative principles and values have constantly been “redefined to suit the needs and challenges of the present” while keeping the original “spirit” (Fairbairn, 1992, p. 49). More recently, the international co-operative movement felt the need to re-craft the set of principles and values to adapt them to current times, and so the Co-operative Identity Statement was issued at the International Co-operative Alliance (ICA) Congress of Manchester, 1995:

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others. (ICA, 1995)

The ICA co-operative principles are means by which co-ops can apply the co-op values (ICA, 1995):

“1st Principle: Voluntary and Open Membership: Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the

responsibilities of membership, without gender, social, racial, political, or religious discrimination.

2nd Principle: Democratic Member Control: Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives, members have equal voting rights (one member, one vote), and co-operatives at other levels are also organised in a democratic manner.

3rd Principle: Member Economic Participation: Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; supporting other activities approved by the membership.

4th Principle: Autonomy and Independence: Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information: Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

6th Principle: Co-operation Among Co-operatives: Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

7th Principle: Concern for Community: Co-operatives work for the sustainable development of their communities through policies approved by their members.” (ICA, 1995)

It is important to note that the principle-based structure of co-operatives makes these organizations behave differently than other corporate forms since the application of the principles materializes in a special legal structure. In Canada, the observance of most of the co-op principles is legally mandatory whereas in other countries such as Italy and Spain, all of the seven principles are legally binding since their non-observance causes the co-operative to lose its legal status. The first article of the Spanish General Co-op Law (27/1999) establishes that co-operatives are "incorporated by associated persons, in free membership and voluntary withdrawal, for entrepreneurial activities, designed to meet their needs and economic and social aspirations, with democratic structure and functioning, according to the principles of the International Cooperative Alliance. " Spanish legislation creates mandatory contributions to a co-op education and promotion fund of 10 percent of the net profits to make sure co-operatives fulfill the last three co-op principles, education, co-operation among co-ops and concern for community. In case of failure to assign monies to the mandatory fund, the amount becomes public debt and the co-op risks losing its status. Italian co-operatives are subject to annual inspections by the National Co-operative Federations, powers conferred on them by the legal system. In the case of Manitoba, the Manitoba Cooperatives Act article 4 (1) identifies that "membership in the cooperative is open, in a non-discriminatory manner" (first co-op principle), "each of its members or each delegate representing a division of its members has only one vote" (second co-op principle), "to the extent feasible, its members provide the capital required by the cooperative" (third co-op principle), and a co-operative "educates its members, officers, employees and the public on the principles and techniques of cooperative enterprise" (fifth co-op principle). The Act establishes that "the surplus funds of a co-op arising from the cooperative's operations are used (i) to develop its business, (ii) to provide or improve common services to its members, (iii) to provide for reserves or the payment of interest on its member loans or dividends on its membership shares and investment shares, (iv) for community welfare or the propagation of cooperative enterprises" (seventh and sixth co-op principles), "or (v) as a distribution among its members as a patronage return based on the business the members have

done with the cooperative". Despite the mention of the sixth and seventh principles, they are not strictly mandatory because the law establishes that the surplus should be used first for other purposes. The fourth co-op principle, autonomy and independence of the co-operative, is not expressly mentioned, but it can be derived from the fact that only members in a co-op can vote and control the organization, and the capital of the business is provided by members precluding, to a certain extent, external investors that can compromise the autonomy of the co-operative.

Co-operatives have been re-discovering the benefits of observing and promoting all of the co-operative principles, particularly in the context of the international trend toward corporate social responsibility (CSR) and ethical business practices, which are increasingly being followed both locally and internationally (Johnson & Turner, 2010). The process of globalization has also exposed and highlighted issues of corporate social responsibility since the rapid development of globalization has outpaced the ability of government to develop regulatory frameworks to legislate those changing business environments, which opens up the possibility for CSR practices to fill that legal gap (Johnson & Turner, 2010). Businesses have begun to realize and respond to ethical preferences in their customer base (Johnson & Turner, 2010), yet co-operatives have been slow to capture this opportunity given that they are precisely the business model that has been following social and ethical principles since their inception. Novkovic (2008) notes that co-operatives are increasingly realizing that the co-operative principles can provide a business advantage over privately-owned companies, particularly when they consider the long-standing and highly principled cases of Mondragon Co-operative Corporation, producer and worker co-ops in Northern Italy and the UK (p. 3). Those examples, Novkovic (2008) continues, have listed compliance with the co-operative principles as one of the "reasons behind their success" (p. 3). Hammond Ketilson (2004) observes that best practices typically include the "ability of successful co-operatives to identify a value or set of values" that resonate with the membership and the ability to "operationalize" these values in the organization's policy (p. 141). Applying co-op values and principles in the daily operations of the organization may be the market niche for co-operatives to differentiate themselves from other types of organizations, which constitutes the co-op advantage and potential for success (Hammond Ketilson, 2004). Therefore, the co-operative difference and the features of its organizational model uniquely place co-ops to effectively meet stakeholders' needs (employees, costumers, etc) in the context of globalization.

The dual nature of a co-operative, combining economic and social dimensions, is perhaps the primary characteristic of its identity. Italian scholars Zamagni and Zamagni (2010) call this dual nature “a genuine two-faced Janus,” or two sides of a coin facing opposite directions. On the one hand, co-operatives pursue economic goals, operate in the market economy and “accept its logic.” On the other hand, co-operatives seek to attain “meta-economic aims,” adding “positive externalities” to their members and the community, thus challenging the logic of the market (p. 1). While co-operatives serve a wide spectrum of social needs including a sense of belonging, “community identity, control over key aspects of everyday life,” to name a few, co-operatives are also compelled to succeed and respond to the “pressures and logic of the market” if they are to succeed (Fulton & Laycock, 1990, p. 3). If one of those aspects prevails at the expense of the other, the co-operative may be “denatured” and risks losing its identity (Zamagni & Zamagni, 2010, p. 1). In other words, when only the social aspect of the dual nature is pursued, the co-op endangers its economic survival, and when the organization concentrates only on the economic aspect it can be “crippled by a reluctance to innovate” becoming more like investor-owned firms, and it may lose support of stakeholders because it is not upholding the co-operative principles (Fairbairn et al., 1991, p. 109). Fairbairn et al. (1991) note that “a one-sided co-op is a one-legged co-op that can not get anywhere” (p. 109). The dual nature of co-operatives, two sides of a coin that strengthen and complement rather than contradict one another, manifests corporate social responsibility in practice: a “moral and philosophical perspective about the relationship between business and society” sustaining the mutual obligations (Johnson & Turner, 2010, p. 329).

Co-operatives satisfy the needs of the membership and are rooted locally. A consumer co-op provides retail goods and services at competitive prices; a member is a user of the co-op who benefits by pooling resources with others to create a democratically owned and controlled local business. A worker co-op fulfills the need for more secure employment and better working conditions, as the workers are also the owners of the business. A producer co-op guarantees the members a market outlet for their produce and allows them to compete at a larger scale than individuals could on their own. A credit union provides its members with financial services and access to credit. In all these cases, co-operatives are typically local businesses that invest in their

communities and keep the control of the organization in local hands. Fairbairn (2004) points out that a “co-operative can be flexible, innovative and entrepreneurial because it does not receive orders from a far-away corporate head office” disconnected from the local reality for the simple reason that “*it is locally owned and voluntarily controlled by local people*—in other words, because of its ownership structure as a co-operative” (p. 19; italics in original). Co-operatives are people-driven organizations, not capital-driven organizations. They exist to fulfill the needs of their member-owners who contribute capital to the enterprise primarily to “maximize the remuneration of the member’s contribution – whether it is labour, asset conferrals or patronage of the co-op’s goods and services” depending on the type of co-op (Zamagni & Zamagni, 2010, p. 26).

1.2.1 Social cohesion and social capital in co-operatives

The social aspects of co-operatives contribute to social cohesion. In Jenson’s view, social cohesion is about “shared values and commitment to a community” (1998, p. 15). Jenson assigns five dimensions to the concept: “belonging, inclusion, participation, recognition and legitimacy” (1998, p. 15). One can argue that co-operatives, like other civil society organizations, create the space for the members to feel inclusion and belonging in a group with shared values and goals. In addition, groups or organizations require the “explicit public acceptance” or “recognition” of the community and institutions, as well as the “legitimacy” to act as an intermediary to create and maintain those spaces (Fairbairn, 2004, p. 24). Co-operatives can constitute a natural fertile environment to foster social cohesion.

The concept of social capital is likewise related to co-operatives. Putnam (2000) argues that social networks of relationships in a community that are built and maintained by trust generate a sense of reciprocity in society that is a valuable resource, or social capital. In his view, a “norm of *generalized* reciprocity—“I’ll do this for you without expecting anything specific back from you, in the confident expectation that someone else will do something for me down the road”—makes for a more efficient and trustworthy society (pp. 20-21). These reciprocal social relationships create “mutual obligations” and, consequently, reciprocated co-operation benefits people (p. 20). Along those lines, Polanyi (1957) directly challenges classical economic theory

by arguing that economic rationality is “embedded” within social relationships and is thus subordinated to culture, politics and religion. What classical economic theory assumes is that “economics exists in a sphere of its own, that its laws are complete and sufficient to themselves, and that the broader social and human relations. . . are not only apart from it but should be subject to its dictates” (Restakis, 2010, p. 10). Traditional economic theory views the economy as an absolute reality that works in the way it has to, and assumes that people should fully subject themselves to it (McMurtry, 2009). This traditional view overlooks the fact that human beings create their economic relationships and are consequently able to transform these relationships and thus change the way the economy works.

In Putnam’s (2000) view, “everyday business and social transactions are less costly” when social capital is high in society, resulting also in lower economic transaction costs given that they have an element of trust as well (p. 288). A co-operative structure based on equality and the implementation of co-op principles and values contributes to the accumulation of social capital in these organizations and in the community in which they are located. As an example, Putnam emphasizes the high levels of social capital found in the communities of Northern Italy marked by high levels of trust, civic participation, solidarity, democracy, and equality. In particular, the Emilia-Romagna Region is well known for its vibrant co-operative movement that fosters social capital (Putnam, 2000, pp. 345-346). Relationships and trust pave the way for “a model and a moral foundation upon which to base further cooperative enterprises,” explains Putnam (2000, p. 346). Gherardi & Masiero (1990) have also argued that trust and solidarity within co-operatives and across co-operative associations protect them from the negative effects of the market, and therefore give them a competitive edge.

1.2.2 Co-operatives' dilemmas: principal-agent problem, member conflicts, and isomorphism

Co-operatives often suffer from a conflict between democratic control and market competitiveness (Fulton & Laycock, 1990). In the first case, the principal-agent dilemma arises from conflicts in the relationships between individuals and the social organization, whereas the second problem, isomorphism, originates as a consequence of following the rules of the market.

Members (principals) often face the principal-agent dilemma as their wishes and needs may not be satisfied by their hired managers (agents) because they may undertake actions that are not in the principal's best interests (Fulton & Laycock, 1990). At the root of this dilemma we find that people pursue their own goals, interests and ideologies; for example, managers' and employees' goals may be good wages, job security, promotion, etc., which may be in conflict with the member-owners' objectives. Often there are multiple principal-agent relationships in co-operatives as the problem is also found between board and management, between management and employees, and between members and elected boards (Fulton & Laycock, 1990). The principal-agent dilemma reveals two different views of the nature of the co-op activity, or "two logics of collective action" (economic versus social) as some members may want to see a priority of social goals over market-oriented ones, while agents may believe that succeeding in the market should be prevalent (Fulton & Laycock, 1990, p. 6). However, in large groups of members, not all may members wish to see social goals prevail, nor do all managers think that market goals should be imperative. The complexities of the principal-agent dilemma can lead to serious member conflicts, which may render the co-operative dysfunctional if they are not properly addressed.

Another layer of the principal-agent dilemma includes the diverse motivations of different generations of members. The founding members may have been motivated by a need to enhance social relationships while satisfying economic needs, and yet younger and current members may not share the same motivations that derived from particular socio-historic circumstances their past generation lived (Fulton & Laycock, 1990). Unfortunately, current members may not be aware of these two motivations, and they may regard service provision enabled by the market as the primary goal of the co-op without realizing the negative effect the economic prevalence may have over legitimate social goals the co-op was created to serve in the first place (Fulton & Laycock, 1990).

Co-operatives experience pressure to mimic the behaviour of investor owned firms (IOFs) in responding to market pressures, which presents challenges and poses questions concerning co-operative identity. The conformist pressures continue in the market, as Dimaggio and Powell (2004) highlight the existence of a process of homogenization or "isomorphism" in

organizations, which is the tendency of one organization to emulate the features and behaviour of other organizations perceived as successful (p. 114). Because co-operatives operate in the market economy and become enmeshed in its logic, they tend to feel isomorphic pressures to emulate “the style and strategies” of their IOF competitors (Fulton & Laycock, 1990, p. 7). In fact, as co-operatives adopt more “market-oriented strategies,” they become more similar to their competitors, endangering their unique dual nature and the very reason that justified their existence in the first place (Fulton & Laycock, 1990, p. 8). Members and the broader public find it more difficult to differentiate co-operatives and IOFs, putting at risk the particular “co-operative-specific market advantage” they enjoy (p. 8). This process affects co-operative identity when co-operatives are torn between the economic goals of market-oriented strategies and the community-rooted social goals.

1.2.3 Co-operatives and investor-owned firms

For the purpose of this study, it is necessary to note some of the main differences between co-operatives and investor-owned firms (IOFs) as a prelude to elaborating key comparisons and distinctions in succeeding chapters. The first difference is in the purpose of these two models. In co-operatives, the purpose is to serve the needs and aspirations of the membership. In IOFs, the reason for their existence is to maximize shareholder profits. Although co-operatives deploy economic tools such as private property, and operate in the market, they do so in order to pursue social goals, which are “embedded” in the social dimension of the co-op, and not vice versa (McMurtry, 2009, p. 58). This difference comes from the dual nature of co-operatives given that they incorporate both the “associationism” and the “entrepreneurship” dimensions (Zamagni & Zamagni, 2010, p. 27). The first dimension refers to the social purpose of members freely associating in a venture that would enable them to achieve a specific goal, and the second dimension requires that the “method” used to achieve that goal be through an economic organization operating in the market (p. 27). Charitable organizations lack the second dimension, and the investor-owned firms lack the first dimension.

The social dimension of a co-operative, based on a set of co-op principles and values, allows the members to control the autonomous enterprise. In fact, those principles and values determine the

"*corporate*" structure and the behaviour of the organization because they insert the economic activity of the co-operative within a "social framework" that is different from the IOF model (McMurtry, 2009, p. 57, italics in original). In a co-operative, the members exercise positive "freedom to" decide the destiny of the organization and achieve their common goals as opposed to negative "freedom from" embodied in a capitalist enterprise that implies a lack of constraints (Zamagni & Zamagni, 2010, p. 28). Particularly in the case of worker co-ops, the freedom to exercise full autonomy enables workers to see labour as "an opportunity for self-realization" and not just as an input or factor of production as occurs in the IOF (p. 28). Worker co-operatives and IOFs differ in the ends that they pursue and in the nature of their relationships. Typically the co-operative members will work together towards a common end, whereas IOFs manifest conflicting goals, particularly between the shareholders' desire for profit maximization and the employees' desire for wage betterment. A positive freedom approach to understanding "labour-as-action" and the inherent human development opportunity, particularly as manifested in worker co-operatives, is rarely mentioned in economic literature (Birchall, 1994; Zamagni & Zamagni, 2010, p. 29).

Another key distinction between co-operatives and IOFs is that the democratic structure of co-operatives allows members to elect a Board of Directors; each member of a co-operative has one vote because votes follow the individual and not the capital invested. Profits are reinvested in the co-operative or distributed to members and the community. For these reasons, co-operatives are said to embody "economic democracy" because they allow ordinary people to democratically and economically control their own destinies (Restakis, 2010, p. 3).

As principle-based organizations, co-operatives tend to "internalize market externalities" and "promote social innovation and entrepreneurship" (Novkovic, 2008, p.1). Co-operatives often remain in communities providing services even in the case of market failure, whereas IOFs leave communities if it is not economically profitable to remain (Fairbairn et al., 1991; Novkovic, 2008). Guided by their principles, co-operative organizations internalize market externalities as they employ people with barriers to employment, "undertake costly practices to care for the environment," provide higher food safety standards absorbing extra costs, and choose to offer affordable products to low-income communities (Novkovic, 2008, p.8). In this way, Novkovic

(2008) points out that “the supply decisions are fundamentally altered in light of co-operative social goals” (p. 6). As democratically controlled enterprises, their “flat management structure,” participative nature, and flexible work environments favour social innovation and social entrepreneurship (Novkovic, 2008, p. 8).

1.3 Co-operatives, collective action, and responses to globalization

Understanding the nature of co-operatives also requires highlighting their connection to collective action. Indeed, Fulton (1990) views co-operatives as “a form of collective action in which members participate in order to achieve personal as well as group goals” (p. 103). These organizations pool the resources of people who would not be able to achieve their aspirations individually. By collectively aggregating market power and resources, they supply the means required to address powerlessness and poverty. Harris, Stefanson, & Fulton (1996) explain that “at the core of any form of collective action lies a key group of individuals who recognize they face a common problem or perceived opportunity, and are prepared to work cooperatively to address the common goal” (p. 17). Co-operatives typically “emerge because a group sees a benefit from acting together” (Fulton, 2004, p. 12). A World Bank report (2008) highlights the case of “India’s success in milk production . . . built on the collective action of marginal farmers through the Indian Dairy Cooperatives Network” (p. 258). Indeed, this collective action is another core difference between co-operatives and IOFs (particularly small and medium-sized enterprises). As Kohn (1992) exhorts us to replace competition with co-operation in order to build a better society, he reminds us that “co-operation requires collective action, and collective action requires education and organization” (p. 195). Collective action is not only a means to an end, but an end in itself because it reinforces relationships, creates identity, and contributes to mutual education in the organization’s membership. For that reason, the literature highlights the importance of collective action for co-operative development, and agrees that collective action is deserving of external assistance and supports in order to build and maintain it (Fulton, 2004; Harris, Fulton, Stefanson, & Lysyshyn, 1998; Harris, Stefanson, & Fulton, 1996; McMurtry, 2009).

In the context of economic internationalization, collective action especially prepares co-operatives to fill gaps left by the market economy, to deliver public services, or simply to satisfy the unmet needs of communities. Polanyi (1957) argued that in the early nineteenth century, self-regulating market agendas were set in motion in some parts of Europe causing the disruption of the social structure upon which the economy was built. As explained earlier, the first responses to that phenomenon came from co-operatives that emerged in the mid nineteenth century as a response to the Industrial Revolution and its socio-economic consequences (Fairbairn et al., 1991). Workers' labour became a commodity, sold and bought at the price the market would pay for it (Birchall, 1994). The welfare state and consumer protection laws were absent (Birchall, 1994). The Rochdale Pioneers thought that a shop owned by its customers was the best means of consumer protection, and it would also empower the members because profits would go back to the customer-members in the form of a dividend rather than going into the pockets of private storeowners.

Along with stressing the pragmatic and material reasons for Rochdale to emerge, others point out that the previous half century of working-class activism, social and political ideology, and linkages to the labour movement also constituted necessary external factors for the creation and success of the Rochdale co-op experiment (Fairbairn, 2001). Whether it was the consumer co-operatives in Britain, the agricultural and credit co-operatives in Germany, the dairy co-ops in Denmark, or the worker co-ops in France, these first co-operatives sought solutions to the “nineteenth century *globalization*” that left “those with little capital dependent on political and economic events elsewhere” and little power to control their own destinies (Fairbairn et al., 1991, p. 7; italics in original). Socio-economic turmoil, free trade, and international competition left communities vulnerable to market and price fluctuations. Local collective action in the form of co-operatives prepared communities to weather the negative effects of globalization and provided the means to modernize and to adapt to those changes.

Globalization and economic restructuring have laid out a new context for collective action in co-operatives. In fact, Fairbairn et al. state that “far from being a fundamental threat to co-operatives, globalization is the original reason for their existence,” because it “creates the need, which in turn creates and sustains co-operatives—the need to combine the capital and spending

power of many, in order to survive or shape socio-economic change” (1991, p. 8). Globalization in the twenty-first century is not a new phenomenon; it periodically goes through waves of innovation, adaptation, and moments of destructive crises that hit communities (Kotz, 2009). Whether it emerges out of the industrial revolution in the nineteenth century or creates a new wave through the information and communication technologies of the twentieth century, “globalization is at least two centuries old” (Fairbairn et al., 1991, p. 8). Resilient beyond the impacts of economic globalization, co-operatives have gone through several breaking points of global crisis, “including two world wars and the great depression, coming out stronger every time” (Birchall, 1994; Birchall & Hammond Ketilson, 2009, pp. 6-7). Their capacity to survive, thrive, and adapt in these times “shocks,” argue Birchall & Hammond Ketilson (2009), giving the example of co-operatives providing a distribution network of food supplies during the reconstruction years “in Germany and Japan after the Second World War” (p. 7). The ability of co-operatives to withstand crises is specially noted in some examples of co-ops that have celebrated their centenary in Italy (Birchall & Hammond Ketilson, 2009; Zamagni & Zamagni, 2010). Having survived innumerable crises and two world wars, the Federation of Co-operatives of the Trentino-Alto Adige region, Italy, founded in 1895, is still thriving today (Zamagni & Zamagni, 2010; p. 48).

The persistent evolution of globalization and the internationalization of the economy “comes in waves as the logic of the market works itself out,” explain Fairbairn et al., as globalization is an inextricable characteristic “built into the structure of the market economy” (1991, p. 8; Kotz, 2009). Some of the consequences of this phenomenon include a growing inequality, the increasing gap between rich and poor, a financial sector with few restrictions that tends to engage in speculative activities, and major “asset bubbles” such as the inflated real estate and securities (Kotz, 2009, p. 307). While banks and some private corporations faced bankruptcy and required “bail-outs” from governments to survive, co-operatives demonstrated a different solution to the crisis. In a report prepared for the International Labour Organization, Birchall & Hammond Ketilson (2009) provide evidence of co-operatives and credit unions in different parts of the world weathering the crisis and the following recession with hardly any government funding. In fact, the report explains that co-operatives “can lessen the impact of the recession by the mere fact that they survive and continue to carry out business,” while other businesses close down (p.

13). The example of the Trollhattan Co-operative Society in the town of Trollhattan, Sweden, founded in 1867 and still operating today is striking (Birchall & Hammond Ketilson, 2009; Carson, 1998).

Depending on the type of co-operatives, these organizations hold distinct advantages that have been crucial to their resiliency during the global meltdown. For instance, financial co-operatives serve costumer-members that are more “risk-averse” and they did not engage in the speculative and un-ethical “sub-prime” lending practices found in the banking sector (Birchall & Hammond Ketilson, 2009, pp. 13-15). The fundamental difference between financial co-operatives and banks lies in the ownership, governance, and the methods of capitalization. As member-owned organizations, credit unions and co-operative banks are often more “risk-averse” than banks that are compelled by shareholder interests to pursue maximum profits, and as a result they decided to stay away from “riskier sub-prime loans” (p. 15). Their democratic governance structure enables members to more effectively “scrutinise” the decisions of the organization (p. 15). Financial co-operatives are capitalized through member savings and deposits, not through speculative markets as in the case of banks, which makes co-operatives more wary when lending money as these loans are typically coming from another member’s savings creating a dynamic of “moral constraint” (p. 15). As a result, rather than experiencing losses during the financial and economic crisis, credit unions and co-operative banks in Canada, the US, and Europe have actually increased business in all aspects such as “in assets and deposits; increased volume of lending; increase in membership; a better rate of interest; and greater stability (measured by capital adequacy ratios, and loan default rates” (p. 16). A similar result is found in “developing countries” where credit unions and co-operative banks are almost the only option low income sectors have for access to credit, and have also been very resilient during the meltdown (Birchall & Hammond Ketilson, 2009, p. 25). According to Birchall & Hammond Ketilson (2009), non-financial co-operatives also offered advantages during the global economic turmoil. For instance, worker co-operatives provided more sustainable employment through labour co-operatives and employee buyouts; consumer co-operatives facilitated access to affordable food and other supplies; and producer co-operatives enabled members’ businesses to become more relevant and effective leading to business growth in the midst of the crisis.

Although all types of co-operatives seem to perform well in satisfying unmet needs in times of crisis, evidence suggests that co-operatives are not only a sustainable model to be used in crisis. Actually, “it is the strength built up by cooperatives during the good times that helps tide them over a recession,” according to Birchall & Hammond Ketilson (p. 8). Globalization and the economic crisis have revealed that “the individual’s self-interest is best secured by commitment to and participation in a group” (Fairbairn et al., 1991, p. 16). In fact, “co-operatives and collective action are appropriate responses to globalization and economic restructuring because they address the powerlessness created by excessive individualism within a global market” (Fairbairn et al., 1991, p. 16). The impact of deregulated markets and, consequently, their social dislocation require that communities engage in a new search for humane values, a quest to “rediscover and rebuild” a co-operative dream (Fairbairn et al., 1991, p. 18). Whitman (2011) points out that “any resilient organization that can weather a recession would seem invaluable in the current economic climate” yet co-operatives are not given the proper supports to flourish (p. 1). While social and economic conditions in current times provide a more intense motivation for people to act together and form co-operatives, the resiliency and the sustainable, equitable, and democratic nature of this business model demonstrate that co-operative development deserves government attention and institutional support.

1.4 Co-operative development

Co-operative development is an area of study that has not been deeply researched (Fairbairn, 2004). In fact, the U.S. Overseas Cooperative Development Council (2007) found that resources to fund research on co-operative development are very scarce as this topic “tends to be a secondary area of emphasis under studies on civil society, NGOs, farmer associations, rural participation, democracy and poverty alleviation,” a factor that ultimately limits the potential impact and results of co-op development (p. 34). Therefore, more investigation on co-operative development, successes and barriers, is necessary in order to illuminate new understandings, and facilitate the creation of new development strategies. In this context, this research aims to inform academics, policy makers, as well as co-operative practitioners and developers.

Co-operative development is often pursued by three lead actors: government agencies, co-operatives, and individual co-operative developers. Empirical and theoretical evidence suggests that government agencies may not be the best vehicles to pursue co-operative development as grassroots social and collective action is primarily required to start co-operatives, which government cannot provide (Pollet & Develtere, 2004). Co-operatives engaging in developing other co-operatives seem to be a more appropriate model as it is not a top-down approach as in the case of government-led development for political reasons. Established co-ops have gone through the process themselves, can provide first hand technical assistance, support, in some cases even financing, and offer a sense of belonging to a movement. In the Spanish and Italian examples, co-operative development was pursued by federations of co-operatives or co-operative groups, initially with little or no state support, yet proved highly successful in producing an enabling environment for co-operative development. Individual co-operative consultants can walk groups through the technical assistance, and perhaps even aid those wishing to start co-ops in finding financing opportunities; however, co-operative developers can not provide the motivation for people to start co-ops, nor can they build grassroots social action and the social relations in the group (Pollet & Develtere, 2004). Although these three lead actors may be helpful in facilitating the process of co-op development, the dissertation will explore in the context of Mondragon what established co-operatives can do in animating co-op development and building a movement.

Co-operative development is often understood in two different ways, although its full meaning implies both. On the one hand, according to Cornforth & Thomas (1990), co-operative development can be understood as “the increase in their number and the growth and social development of individual co-operative enterprises” and, on the other hand, as “development through cooperatives and cooperative principles – in other words, elevating cooperation to an organizing idea that could underlie general social and economic development” (p. 451). The first meaning refers to an actual growth in the number and size of enterprises, and the second meaning touches on a broader understanding of co-operative community development. In the latter sense, co-operatives have played an important role in pursuing sustainable economic enterprises “consistent with community’s social goals and vision” (Fairbairn et al., 1991, p. 13).

A strong co-operative sector does not rise by chance or coincidence. Empirical research and theoretical literature have systematically agreed that a healthy co-operative sector is unlikely to develop or even be maintained unless it has its own supportive organizational infrastructure (Cornforth, 1988; Cornforth & Thomas, 1990; Fairbairn et al., 1993; Harris et al., 1998; Harris, Stefanson, & Fulton, 1996; Morrison, 1991; Whyte & Whyte, 1991). Along those lines, Fairbairn et al. (1993) stressed the existence of a “gap, generally, in the infrastructure to serve new co-operatives” in Canada that needs to be addressed (p. 6). Harris, Stefanson, & Fulton (1996) state that “although common economic or social issues represent necessary conditions for cooperative development, they do not appear to be sufficient conditions” for co-operative formation, as the group will likely need as well “outside institutional support” (p. 17). One form of organizational infrastructure to support co-operative development takes the form of “co-operative support organizations” that try to alleviate some of the external and internal pressures that co-ops confront and the usual barriers that they face (Cornforth & Thomas, 1990, p. 453). The authors identify two ideal roles those organizations should play in addressing typical obstacles: one is economic and the other political. The economic function is extensive as it seeks to provide financing to co-ops; provide training in areas not covered by traditional educational institutions such as co-operative management; and “compensate for the alleged reluctance of individual entrepreneurs to start cooperatives” (Cornforth & Thomas, 1990, p. 453). The political function includes lobbying on behalf of co-operatives in order to obtain equal rights with IOFs on simplifying co-operative “taxation and legal matters”; acting as a bridge between co-operatives and government or other institutions to advocate for co-operatives' interests; and working towards building a “dynamic social movement” among co-operative members and activists (pp. 453-454). The usual barriers and constraints that co-operatives face are mostly agreed in the literature and empirical research: a dearth of funding adequate to the special needs of co-operatives, a lack of knowledge of the co-operative model and specific managerial and entrepreneurial skills, a lack of adequate policies and legislation that ensures an equal playing field for co-operatives, and a lack of coordinated efforts from the sector to lobby governments (Cornforth & Thomas, 1990; Fairbairn et al., 1993; Pollet & Develtere, 2004). The form or structure that the supportive organizational infrastructure takes for co-op development varies considerably depending on the country, and even the region. There is no “one size fits all” recipe as to the most effective mechanisms to influence co-op formation and growth. Further studies

that address those barriers are required in order to better understand the process of co-operative formation, resilience/sustainability, and growth.

The 1970s and 1980s did see a revival in co-operative development in most “Western” countries (Cornforth & Thomas, 1990, p. 452), particularly in France and Italy, countries characterized by “established federations and networks of support” for co-operatives. Other countries, such as the UK and the US, saw a resurgence of worker co-operatives in particular. For example, a lot of the worker co-op development in Britain in the 1960s and 1970s was heavily assisted by local “co-operative support organizations” (Cornforth & Thomas, 1990, p. 453). Cornforth & Thomas (1990) called this co-operative revival a “new wave” of co-operatives linked to the students’ movements of the 1960s and 1970s that reacted to unemployment and inequalities in modern industrial society, and later were related to “women’s, peace and environmental movements” (p. 453).

One important aspect of co-operative development, often insufficiently studied, is the role played by social movements in the growth of the sector (Cornforth & Thomas, 1990; Fairbairn, 2001). McMurtry (2009) points out that the set of co-operative principles and values that determine their behaviour constitutes “a shared platform of social, economic, and political analysis” that unites these organizations into a movement across the globe (p. 57). Defined as “a loosely organised effort by a broad group of people to change the culture of the dominant society” or to resist change, a social movement develops shared values in its membership, and is often sparked by sentiments of injustice, marginalization, and exclusion (Fairbairn, 2001, p. 28). Shared values form the norms of the movement that bind the members and strengthen the identity of the movement at the same time as they “provide a framework for action” (Craig, 1993, p. 21). Shared values of equality and democracy in a social movement, for example, would likely establish structures that allow for equal member participation in decision-making (Craig, 1993). Social movements propose a particular ideal for society that often entails a practical means by which the desired vision will be implemented and enable members to formally join the movement (Fairbairn, 2001). Every social movement is sustained by a particular ideology, and the co-operative movement has adopted a set of values as its social philosophy that “emphasize co-operative action in the solution of economic and social problems” (Craig, 1993, p. 23).

Through cross-memberships in different social movements, "cross-movement networks" are established that aid in shaping common identities of resistance and struggle (Carroll & Ratner, 1996, p. 601). Such was the case of the Italian co-op movement as cross-memberships and networks between the trade union movement and the socialist movement were instrumental in forging common identities for the three movements in the early days, a process that contributed to the strength of the co-operative movement (Hancock, 2007).

Social movements, such as "labour movements, farmers' and rural movements, religious and ethnic-nationalists, women's and temperance movements" and more recently the fair trade movement, have promoted co-operative development to support their members' goals, (Fairbairn, 2001, p. 28; Pollet & Develtere, 2004). The International Confederation of Free Trade Unions and the World Confederation of Labour have actively been promoting worker co-operatives internationally (Pollet & Develtere, 2004, p. 33). The International Federation of Agricultural Producers has been linked to the development of co-operatives among farmers, mostly in Third World countries (Pollet & Develtere, 2004). Oikocredit deploys the investment capital of churches to promote international co-operative development, and the Fair Trade Labeling Organization has been instrumental in developing producer co-ops in the Third World by allowing them to benefit from labeled fair trade products and collaborating with some of their technical assistance needs (Pollet & Develtere, 2004).

Institutions are not rigid structures, but rather flexible, ever changing, and connected to historical, socio-cultural, political, and economic processes (Putnam, 1994). Therefore, studying co-operative institutions requires an understanding of these dynamic processes, their connections to other social movements, and their ties to the sustained ideologies within co-operatives that are embedded in social movements. Understanding co-operatives as flexible institutions within a broader system highlights the importance of "the culture of co-operatives and of their movements" (Fairbairn, 2001, p. 32). Cornforth & Thomas (1990) remind us that looking at the broader meaning of co-op development lets us discover "cultural and ideological factors" in each co-operative movement that, in turn, deepens our understanding of why certain supportive development infrastructures are successful in "regenerating cooperative ideals" while others in different contexts with similar mechanisms are not (p. 459). Understanding the connections

between co-operatives and society, culture and politics, that affect these organizations will shed light on the successes and failures of development strategies (Fairbairn, 2001). The most impalpable components of cultural factors, trust and solidarity within co-operative organizations and across co-operative networks, are key features that determined the success of development in the Italian co-op movement, because they operate as a “non-material productive factor” that helps co-operatives weather negative effects of the market (Gherardi & Masiero, 1990, p. 571). Similarly, the Mondragon development system realized the importance of addressing not only the usual development barriers co-operatives face, but also creating the mechanisms to regenerate a culture of co-operative ideals for future generations through training and education (Meek & Woodworth, 1990; Whyte & Whyte, 1991). Indeed, effective co-operative development requires addressing technical needs, and also understanding the role and connections of co-operatives within a broader context.

Co-operative development has been understood in different ways. Historically the Rochdale Pioneers understood co-op development as a grassroots solution initiated and controlled by the community it affects (Fairbairn, 1992). Pollet & Develtere (2004) remind us that much of the co-operative development pursued in Southern countries had a "colonial cooperative paternalism" lens that resulted in failure (p. 67). Once the colonies achieved independence, new governments imposed a "state-led" top-down development approach for political reasons that did not work either (p. 67). In light of recent global economic crises, and these past co-operative development failures, a "new development agenda" has emerged that relies on co-operative development agencies and emphasizes 1) a "multistakeholder" approach involving non-government actors such as civil society organizations and businesses, 2) "decentralization and privatization" with less government intervention that involves private actors, 3) the use of local entrepreneurship in the process, 4) poverty reduction goals, and 5) the requirement of specialized and professional services (Pollet & Develtere, 2004, p. 12).

In Canada, the co-operative practitioner-led development framework is the seven pillar model designed by the Co-operative Development Strategy Council and approved at the 2007 Annual General Meeting of the Canadian Co-operative Association (CCA). See Table 1.1. CCA, as the apex co-operative organization representing English-speaking co-operatives in Canada along

with its provincial and sectoral affiliates, sets the development agenda and provides guidance on the co-operative movement's mission, vision and practices. The seven pillar model is useful as a conceptual framework for guiding federal and provincial co-op development efforts.

Table 1.1 The Canadian Co-operative Association's Strategic Pillar Model

1. Co-operative sector leadership & support
2. Outreach & promotion
3. Public policy/ program funding/ legislation
4. Capitalization
5. Technical assistance
6. Sector development
7. Research*

Source: CCA (2007a). AGM Handbook, 8-10. *This strategic pillar was recently added by the Strategy Council at its second meeting and has not had significant discussion yet.

Pillar 1: Co-operative sector leadership and support

This pillar speaks to the fundamental need for co-operative development to be directed and driven by the co-op sector itself, as opposed to being led by the government or other actors.

Acknowledging the sixth co-op principle of "co-operation among co-operatives," this pillar calls for the co-op movement to take direct action and ownership of the development process.

Increasingly, co-operative associations and federations are becoming aware of the need for them to take a leadership role in co-op development (Fairbairn et al., 1993). The CCA and the Conseil de la Coopération du Canada (CCC), representing the Francophone co-operatives in the country, "are in the best position to facilitate discussion and to encourage concrete initiatives" for development (Fairbairn et al., 1993, p. 50). The literature is clear that "for co-op development efforts to be successful, ownership of the problem and its solution must rest with the co-operatives and people in each of the regions" (Fairbairn et al., 1993, p. 57).

Pillar 2: Outreach and promotion

This pillar articulates the importance of increasing promotion of the co-op model as a viable option to business developers, professionals, and communities involved in all possible sectors (i.e. bio-fuel; wind energy; social co-ops). By identifying sector needs and opportunities, this strategic pillar intends to reach beyond the existing co-operative sector in promoting the model to the general public through media, Internet, and other sources. The development of the Co-op Zone website is an example of a widely available and promoted information tool.

Pillar 3: Public policy / program funding/ legislation

Favourable co-op policies can create the necessary mechanisms for co-op creation and expansion (Loxley and Simpson, 2007; Adeler, 2009). Apex organizations and co-operative associations need to play an important role in lobbying for a supportive policy framework for development because enabling policies can highly influence the success of co-op development (Adeler, 2009; Fairbairn et al., 1993; Laycock, 1987; Loxley & Simpson, 2007). One recent example of successful lobbying by the sector in Canada is the Co-operative Development Initiative (CDI), a federal program funded by the state and managed by the co-op sector. The CDI provided start-up, capacity building, and research grants through the CCA and CCC to support co-operative development (the program was cancelled in federal budgetary cuts, 2012).

Pillar 4: Capitalization

The literature (both theoretical research and empirical studies) has consistently pointed out the key role of capitalization for co-operative formation and expansion, and the systemic problems co-operatives suffer as a consequence of the scarcity of capital (Adeler, 2009; Cornforth & Thomas, 1990; Fairbairn et al., 1993; Quarter & Wilkinson, 1990). The CCA recognizes the crucial need of capitalization in the forms of grants, loans, patient capital, venture capital, and tax credits and the intent to work toward finding long term funding and financing solutions.

Pillar 5: Technical assistance

This pillar addresses the demand for technical assistance, particularly for emerging co-operatives. Education and training are generally deemed to be very important in building the co-op movement; increased demand for co-operative development advisory services is also

specifically noted (Cornforth & Thomas, 1990; Fairbairn et al. 1993; Meek & Woodworth, 1990). Different types of co-operatives (i.e. housing, consumer, worker, producer, multistakeholder, credit union) require specialized training as well as available co-op developers who have the expertise required. Availability and affordability of these services is also a high concern.

Pillar 6: Sector development

This pillar notes that increased support to co-operatives through the building of strong sector federations is an important component in understanding and addressing the specific sectoral issues that co-operatives face. Individual sectors (i.e. energy, bio-fuel and value-added agriculture, childcare, funeral, First Nations, housing, ambulance, worker, etc) require their own sector federations and networks to assess their priorities and to identify opportunities for joint lobbying and collaboration.

Pillar 7: Research

Not discussed in the first meeting, this pillar was added at the Council's second meeting. Although the role of research in advancing the co-op movement has sometimes been overlooked, academic investigation has indeed helped co-ops to identify effective practices, explore emerging market opportunities, and "build their case" by demonstrating the socio-economic impact of co-operatives (Meek & Woodworth, 1990). Progress in this regard has been made with the recent partnership between CCA and academia to work on a Community-University Research Alliance, "Measuring the Co-operative Difference" project.

Writing in Canada, and for the Canadian public, makes the seven pillar model to co-operative development designed by the Canadian apex co-op organization a useful framework as a measure of sector interests, insights, and blind spots. For instance, the value of research for co-op development has not always been noted. Proof of this blind spot is the fact that research was added as an afterthought when developing the seven pillar model.

1.4.1 Public policy

The relevance of policy as a key instrument to stimulate (or not) co-operative development has repeatedly been highlighted in the literature. It has been argued that “one of the greatest challenges to successful cooperative development is creating an enabling legal and regulatory environment – adequate laws, regulations and supportive institutions that promote cooperatives as private sector businesses,” emphasizing the need for research on policy impacting co-op development (U.S. Overseas Cooperative Development Council, 2007, p. 24). Public policies can be used as a mechanism to create the favourable legislation, taxation, government programming, funding instruments and co-operative models necessary for development and innovation that address major development barriers (Adeler, 2009). Loxley & Simpson (2007) have also highlighted the need for favourable policies and legislation that can support co-operative development in Canada. Pollet & Develtere (2004) identified the "poor enabling environment with restrictive laws and regulations" as a major barrier to co-operative development worldwide (p.45). Government commitment toward that supportive environment, as well as the involvement of the co-operative leaders in the process of lobbying and co-construction of policy, has been deemed to be essential in building a better future for the co-operative movement (Adeler, 2009; Axworthy & Perry, 1988; Fairbairn et al., 1993; Laycock, 1987; Loxley & Simpson, 2007; Vaillancourt, 2008). Although the literature stresses the importance of policy and legislation for co-op development, it is unfortunate that interdisciplinary, critical, and comparative research has not been done on the public policy and legislation as a support for co-operative development. This dissertation intends to explore the topic and address this identified research gap.

Conversely, the “uncertainty of government programs, inappropriate government legislation, complexity of programs, a planning process not sympathetic to co-operatives, and inequitable treatment compared to corporate forms” are all important concerns of the co-operative sector in Canada (Fairbairn et al., 1993, p. 24). Public policy impacts co-operative development and the role of government in this regard should be revisited (Fairbairn, 2004). Therefore, Fairbairn et al. (1993) noted that “government has a substantial influence on co-operative development” (p. 24) and that “governments, or at least certain arms of governments, are also increasingly interested in

co-operative development” as they see their potential role in this field, which opens up the possibility of ongoing dialogue with the co-op sector to facilitate the process of co-op development (p. 7). Government may act as an “advocate” to support co-op development “by helping to remove some of the barriers” (Harris et al., 1998, p. 132). Therefore, it is critically important to explore the role governments can play in this regard, and the relationship governments and the co-operative movement can build in order to support co-operative development through legislation, policies, and funding.

Torjman (2005) differentiates “substantive” and “administrative” policy, and explains that “the first is concerned with the legislation, programs and practices that govern the *substantive* aspects of community work” including “for example, income security, employment initiatives, child care services and social exclusion;” while “the second type of policy focuses largely upon *administrative* procedures” involving, for example, “the collection of statistical information on neighbourhoods and the evaluation of complex community programs” (p. 2; italics in original). As Torjman (2005) explains, policy is a “decision” resulting in an action or plan that tries “to achieve a desired goal” deemed valuable that will benefit all or some groups in society (p. 4). Because “policy development entails the selection of a destination or desired objective,” it assigns value to the goal considered deserving by policy makers (Torjman, 2005, p. 4).

Co-operative policy and legislation need to preserve autonomy and democratic member control of co-operatives. Hoyt (1989) identified a framework to analyze policy based on the degree of government intervention and the support provided to co-operatives, which can be useful in exploring the role of government in co-operative development. She finds “destructive policies” when government has tried to restrict, outlaw, or forbid co-operatives because it identified them as enemies of the regime (p. 89). Examples include the Fascist period in Italy (1922-1945), and the Franco dictatorship in Spain (1939-1975). “Neutral policies,” says Hoyt (1989), typical of industrialized countries, apply to permissive states that do not actively destroy nor do they favour co-operatives (p. 89). This approach is observed in Britain, France, and Sweden, as co-operatives were the product of early popular movements based on self-help, and autonomy (p. 89). “Supportive policies” have been passed where governments showed a positive attitude toward co-operatives because they understand the value of co-operatives for communities (p. 90). The

state removes "artificial barriers to cooperative operations" by passing legislation that facilitates the organization and operation of co-ops, and it also provides access to education, research and technical assistance to encourage co-operative creation and expansion, but it does so respecting co-op autonomy and democracy as it does not get involved in the day-to-day affairs of the business (p. 90). Examples include Italy after World War II and Spain after Franco's dictatorship. A fourth type of policy towards co-operatives is "participating policies," which involves direct government participation in organizing co-ops by supplying capital, and management assistance (p. 90). This situation often found in developing countries has ended up in failures as it does not allow for spontaneous popular collective action to form co-operatives, and it tries to impose foreign models without recognizing the local identity and needs (p. 91). The last type of policy Hoyt calls "controlling" as governments take direct control of co-operatives to implement particular state policy agendas, thus dominating the board of directors, management, and dictating production, pricing, and marketing as it was often the case in ex-soviet countries (p. 92). The fourth and fifth types of policy may not lead to co-operative development as the strong involvement of the state in co-op formation and daily affairs seriously compromises the autonomy and independence of these organizations. Those interested in co-operative development should identify neutral or supportive policies as the most appropriate ways to encourage co-op growth.

Beyond the content of policy, there is also the matter of the policy process. According to Vaillancourt (2008), there is a distinction between "co-construction" and "co-production" of public policy, with the former referring to the process of crafting and elaborating the policy and the later referring to the implementation of the already created policy (p. 12). The literature highlights the positive results of a "democratic, solidarity-based" process of public policy creation and implementation, which requires involving several parties in the process of elaborating and producing policy including "collective and individual stakeholders from the market and civil society" acting on an equal basis (Vaillancourt, 2008, pp. 23, 12). Communities usually have few economic and political resources to influence the definition and implementation of the public policies that affect them, and this leads to a feeling of powerlessness that raises questions about the legitimacy of existing democratic institutions (Wharf, 1992). Not only do co-construction and co-production of public policy address this democratic deficit, but they are

likely to result in more effective policy given that the "flexibility of the co-operative and association-based" approaches leads to "innovations" and more effective outcomes (Vaillancourt, 2008, p. 36).

The traditional "monoconstruction model" was based on the sole responsibility of the state to define policy without the intervention of other stakeholders (Vaillancourt, 2008, p. 23). In the "neo-liberal" approach, the state constructs public policy by partnering with the private sector, "the dominant socio-economic agents in the market economy," which leads to an abandonment of the public interest (Vaillancourt, 2008, p. 25). The "corporatist co-construction" model incorporates the participation of the state, labour market, and civil society in the creation of policy, but it is anchored in non-egalitarian representation that causes some sectors to have more weight than others in the decision-making process (Vaillancourt, 2008, p. 25). These models understood the elaboration of public policy as a linear, objective, and neutral process, but in fact "the state is not neutral" because it tends to favour certain private interests and social forces more than others, sacrificing the public interest in the process of policy elaboration (Vaillancourt, 2008, p. 25; Schneider & Ingram, 2008). For that reason, this dissertation stays away from the traditional view of policy and follows Polanyi's (1957) framework, which argues that economic rationality is embedded in and subordinated to the social relations within which it rests. Along those lines, policy is an action or plan resulting from the social, economic, political, and cultural processes within which social actors or policy makers participate, shaping and being shaped by them. "Supportive" public policy in Hoyt's (1989) terminology that encourages co-operative development tends to be the result of democratic, solidarity-based creation processes that involve the interested stakeholders whose relationships are anchored in equality and fairness. For example, the co-operative development tax credit approved by the Manitoba government in 2010 was the result of democratic consultations and egalitarian working partnerships between the state and the co-operative sector affected by the policy (MCA, 2010).

1.5 Research Relevance

Promoting the formation of new co-operative enterprises is important to the fate of communities. In fact, Fairbairn et al. (1993) strongly emphasized the need for co-operative development in

Canada as a way to attenuate the socio-economic repercussions of globalization, periodic recessions (i.e. 1981-82, 1990-93) and now 2008-10, structural adjustments, and the retreat of the state that limits the capacity of government to respond appropriately. Co-operatives are present in a whole range of economic and social activities providing often indispensable services to communities; for example, “specialty food stores,” “communications,” “environmental industries,” “health services,” “housing,” etc. (Fairbairn et al., 1993, p. 9).

The focus of this dissertation on comparative co-operative development and public policy mechanisms to promote co-op creation and growth is timely in light of current socio-economic upheaval in Canada and around the world. Indeed, prominent Canadian scholars have long agreed that “[a] growing consciousness of this gap” in supportive co-op infrastructure “and of the unmet needs of new co-operatives lies behind the feeling that something special needs to be done to support co-operative enterprise development” (Fairbairn et al. 1993, p. 7). Twenty years ago, Fairbairn et al. (1993) were already urging “established co-operatives, governments, and new co-operatives to review successful models and discuss strategies for mutually beneficial partnerships” to promote co-operative development (p. 7).

Comparative research facilitates the transfer of innovative co-op development solutions and institutional designs from different contexts. Learning from international and local experiences, this dissertation compares solutions to co-operative development issues in different co-operative movements with diverse cultural settings, histories, political contexts, and regulatory environments. By studying the Mondragon group example in all its complexity and contradictions, this research can inform and inspire new solutions and understandings of how institutions are crafted and how they change. Comparative research on successful models plays an important role in transferring information, strategies, and innovations and helps address movement “isolation” (Fairbairn et al., 1993, p. 53). It can also assist us in re-thinking a better co-operative future (Findlay, 2004). Due to the comparative nature of this dissertation, navigating linguistic, cultural, political, and geographic obstacles is important in order to allow Canadian audiences to learn from what other countries and/or regions in the world have achieved. One of the author's methodological strengths is her ability to cross the linguistic, legal, and cultural boundaries to engage with and learn from practices in Spain.

This dissertation includes five chapters. Chapter two outlines the theoretical and methodological approach to the research. Chapters three and four address the Mondragon co-operative development system, its institutional contradictions and policy domains, in the Basque region of Spain. Chapter five concludes with an analysis of the implications of the Mondragon example for co-operative development in the context of Manitoba.

CHAPTER II. THEORETICAL FRAMEWORK & METHODOLOGY

As established in Chapter I, globalization is an important context for and cause of the co-operative movement in the nineteenth century (Fairbairn et al., 1991), as it is in the twenty-first century's renewed interest in co-operative development. The global economic downturn of 2008 reminded us that co-operatives are well suited to find responses to some of the negative consequences of globalization since they are collectively owned and democratically controlled enterprises (Birchall & Hammond Ketilson, 2009). In collectively aggregating resources and market power, co-ops allow ordinary people to address powerlessness and poverty (McMurtry, 2009; Restakis, 2010). By pursuing economic and social goals, co-ops operate in the market using economic tools, which are "embedded" within the social dimension of the co-op (McMurtry, 2009, p. 58). This dual nature and principle-based structure prepares co-ops to face the impact of government retreat, increasingly deregulated markets, and the social dislocation produced by economic globalization (Fairbairn et al., 1991). Promotion of co-operatives and adequate supports for their development are important to the economic and social development of communities around the world (UN, 2000, 2001, 2010; ILO, 2002).

Against this background, this chapter elaborates the research questions, epistemological assumptions, theoretical perspective, and methods of the dissertation, according to Crotty's (1998) framework for the research process.

2.1 Research Questions

Having established the importance of co-operative development in Chapter I, it is relevant to highlight that it is often pursued by three lead actors: government agencies, co-operatives, and individual co-operative developers. The second case, co-operatives developing other co-operatives, is the model followed by the Mondragon example that successfully created an enabling environment for co-op development through its institutionalization. The literature and empirical research agree that co-operatives need their own supportive organizational infrastructure to develop (Cornforth, 1988; Cornforth & Thomas, 1990; Fairbairn et al., 1993;

Harris et al., 1998; Harris, Stefanson & Fulton, 1996; Morrison, 1991; UN, 2000, 2001; Whyte & Whyte, 1991). The literature and empirical research likewise agree on the typical obstacles that co-operatives face: a lack of funding adequate to the special needs of co-operatives, a lack of knowledge of the co-operative model and specific managerial and entrepreneurial skills, a lack of adequate policy and legislation, and a lack of coordinated efforts from the sector to lobby governments (Birchall & Hammond Ketilson, 2009; Cornforth & Thomas, 1990; Fairbairn et al., 1993; Pollet & Develtere, 2004). Since co-operatives are institutions connected to their local context, and hence a result of historical, economic, political, and socio-cultural processes, co-op development formulas can not be easily transplanted from one region or country to another. Development strategies are highly dependent not only on pragmatic reasons but also on sustaining ideologies and social movements that give co-operatives cohesion, strength, and identity (Cornforth, 1990; Fairbairn, 2001; Pollet & Develtere, 2004). Despite the uniqueness of co-operative development systems tied to local history, socio-economic, political, and legal factors, they share commonalities from which we can learn.

The previous chapter stressed that a crucial component of the necessary supportive environment for co-operative development is the role of public policy and legislation in creating the mechanisms co-ops need to grow (Adeler, 2009; Fairbairn et al., 1993; Loxley & Simpson, 2007). Government participation in that supportive environment as well as the involvement of co-operative leaders in the process of lobbying and co-construction of policy has been important in developing the co-operative movement (Adeler, 2009; Axworthy & Perry, 1988; Fairbairn et al., 1993; Laycock, 1987; Loxley & Simpson, 2007; Vaillancourt, 2008). Whereas traditional public policy commentary sees the process as linear, objective, and neutral, others point to the evidence that policy makers tend to favour certain private interests and social groups more than others, rendering the policy-making process far from values-free (Schneider & Ingram, 2008; Vaillancourt, 2008, p. 25). For that reason, this study follows Polanyi's (1957) framework, which argues that economic rationality is embedded in and subordinated to the social relations within which the economic realm rests. Development is not reduced to the economic determinations of the market (and its failures) as a dominant feature of social life as the economic represents but one of the factors of the social realm. By recognizing the social, economic, political, legal, and cultural processes of co-op development, this dissertation understands policy not as separate

from the agency of social actors but as produced by the processes within which the actors play a part. In this way, policy results from the social, economic, political, and cultural processes within which social actors or policy makers participate, shaping and being shaped by those processes.

The literature review establishes the logic of the research focus on co-operative development, and the role of public policy and legislation in particular, a focus that leads to the following research questions:

- What are the various factors that contribute to the development of the co-operative sector?
- What role does technical assistance and education play in assisting co-op development?
- What are the impacts of public policy on co-op development?
- What are the socio-cultural and economic factors that encourage innovative policy and support co-op development?
- What financing mechanisms enable co-operative development? How?
- What role does organizational infrastructure play in supporting co-operative development?

Although these development components listed in the research questions are crucial, they will be studied here to a minor extent and in relation to the institutional frameworks long overlooked by the co-op development literature. The cracks or fissures in institutional frameworks both open possibilities and reproduce contradictions as co-operatives seek change. This focus leads to the central research question of this study:

- What are the impacts of institutional frameworks and their contradictions on co-operative development?

This research requires a multi-lingual, intercontinental, cross-cultural, comparative and interdisciplinary approach. Studying within these frames diverse co-operative development systems in different countries is crucial to share lessons learned with Canadian audiences.

In methodological terms, one of the author's strengths is her capacity to work across linguistic, cultural, and legal boundaries to engage with and understand practices in Spain and link that learning to Canadian opportunities and challenges. In this way, this study addresses the significant geographical, linguistic, cultural, political, and legal barriers that separate Canada from other places and the potential to learn across our differences. Similarly, the legal and business training of the author of this dissertation has taken her from a highly technical, positivist training in law and business to the interdisciplinary, comparative, and critical re-understanding of public policy and legislation.

2.2 Epistemology

An important part of any research project is to reflect on its purposes (and questions) and the justification of choices of methodology and methods. Such justification entails sharing explicitly assumptions about reality and the researcher's relation to it—and hence about our epistemological and theoretical perspectives. How does the researcher understand knowledge and how we come to know and understand what we do? Why should readers take the research seriously? (Crotty, 1998).

Social Constructionism: This research commits to study social phenomena from a constructionist perspective. As individuals interact, making meaning for themselves and the world surrounding them, there is no single regime of "truth," but rather multiple ones (Denzin & Lincoln, 2005, p. 189). In reacting to a positivist paradigm that takes for granted only one universal and objective truth, social constructionism teaches us to see the world in different colours, and engages in self-reflective, critical consciousness of co-produced empirical realities. For positivism, truth is objective, neutral, impartial, and awaits discovery as it is taken to be independent of the observer who does not assign meaning to the object of study since its meaning exists a priori, and is independent of any consciousness of it (Crotty, 1998). Positivism privileges science and views social and human disciplines as not truly scientific because their objects of study are not objective and empirically verifiable but subjective, unverifiable and values-based (Crotty, 1998). In this way, positivism claims to uphold an absolute truth and pursues a "values-neutral" approach to science (Crotty, 1998, p. 27).

However, social constructionism challenges this view arguing that the observer is not a passive component absorbing the truth already existing in the object of study but rather an active participant engaging in the process of constructing meaning of it, and hence, creating the reality a posteriori (Weinberg, 2008). The search for "universal truths" in which the positivist scientist engages can be "harmful" because it acts to reify things that are, perhaps, only mere observations and to convert them into universal concepts of the social life, but those definitions are not inevitable, should be questioned and, perhaps, even changed (Weinberg, 2008, p. 15). Indeed, studying co-operatives, their development and public policies, calls for a constructionist epistemology because those phenomena are part of the social world; their truths are not absolute and universal but ever changing and subject to diverse interpretations. Weinberg (2008) argues that "social constructionist researchers can benefit from a more sustained consideration of the intellectual legitimacy and/or social value of our own research as such," which would involve not pursuing objective truths as positivists do, but rather engaging in conscious critical approaches to deconstruct and unmask the claims of objectivity and of mainstream disciplines (p. 15). This critical stance of social constructionist researchers has shaped the "intellectual identity" of their critical constructionist work creating a necessary role for them in academic discussions (Weinberg, 2008). Social constructionist research acknowledges fallibility and the almost inevitable "embeddedness" of the researcher in certain socio-historical pasts, and by doing so, constructionism becomes critical and seeks to dialogue constructively with other intellectual disciplines to better understand the world (Weinberg, 2008, p. 35). An epistemology of the "ethics of truth," social constructionism exhorts us not to presume or desire objectivity but to acknowledge our values base, subjectivity and fallibility first, to then pursue change to make the world a better place (Weinberg, 2008, p. 35). Indeed, coming out of the critiques of their reality, the early Mondragon and North Italian co-op movements actively sought social, political, and economic change through the development of self-help, values-based and democratic organizations, which makes a non-positivist and social constructionist epistemology the appropriate approach to study them.

Since social constructionism engages in conscious critical dialogues with academic disciplines (Weinberg, 2008), a critical interdisciplinary approach to research is best suited to deconstruct

and then reconstruct the traditional philosophical partitions between academic disciplines and do some justice to the co-operative development phenomenon. The dual nature of co-operatives, combining an economic and a social dimension, is best understood using an interdisciplinary approach. In the words of Fairbairn (2007), conceptual, critical, or full interdisciplinarity “allows for conscious critiques of disciplines and of their forms of knowledge.”(p. 15). According to Fairbairn & Fulton (2000), “concepts are borrowed from the assembled disciplines to tackle a particular research topic in integrated rather than parallel fashion” (p. 5). In a traditional disciplinary approach, concepts and problems are defined within the frame of a particular discipline whereas an interdisciplinary research proposes to define the problem or the object of study outside the disciplines involved (Fairbairn & Fulton, 2000). Understanding interdisciplinarity as “a problem-based approach” or “an object-based approach” lets us bring different disciplines’ knowledge and methods to examine a research object or to solve a problem of study (Fairbairn & Fulton, 2000, p. 4). As an interdisciplinary dissertation committed to a cohesive, holistic, and integrated piece of knowledge, this study intends to connect and integrate diverse disciplines, bridging theory and practice, while remaining committed to critical analyses of the disciplines and their entrenched frames. In this way, by acknowledging the role of the historical, the political, the social, the economic, and the cultural realms, this interdisciplinary study does not see co-op development as reducible to the economic determinations of the market, but rather places the co-op development and policy phenomena within the social, economic, political, and cultural processes within which they participate. Borrowing from a sociological approach, this dissertation acknowledges the “embeddedness” of the economic realm within social relations (Polanyi, 1957; Granovetter, 1985).

A legal approach is necessary to disclose values and co-op development mechanisms embedded in the legislation. Although a legal positivist approach has produced some useful results, its frame of reference excludes the larger socio-cultural processes of which it is a part. An interdisciplinary and critical approach to the law understands policy and legislation not as separate from the agency of social actors, but as a result of the processes within which social actors shape the content and meaning of the letter of the law. A critical historical lens lets us place co-operative movements in their particular historical backgrounds and meaningful contexts.

The dual nature of co-operatives requires bringing into dialogue both economic and sociological analyses. Economics is important to understand specific dilemmas co-operatives face while competing in the market economy. Political Science can help unpack and deconstruct power relations behind the public policy domain that serve or hinder co-op development purposes. Finally, cultural studies, an interdisciplinary initiative that investigates the production, reception, and reproduction of institutions, practices, products, and processes (Hall, 1980), can unpack the influence of different cultures on policy makers, legislation, and innovative responses of co-operative institutions. Indeed, only an interdisciplinary research approach can make sense of the complexity of the co-operative development phenomenon and the issues it faces.

Social constructionism plays a decisive role in “understanding how it is that public policy treats some people [and groups] so much better (or worse) than others” (Schneider & Ingram, 2008, p. 189). The social constructionist approach has influenced the study and understanding of public policy because this epistemology focuses on "symbols, interpretation, and discourse" of policy (Schneider & Ingram, 2008, p. 190). Public policy reflects predominant social constructions of certain groups in society, usually of those in power. However, public policy can sometimes act as a vehicle for change of those predominant constructions, inverting the beneficiary groups in society. Groups can influence the policy making process to benefit themselves, and policy makers can tacitly state that the targeted population of the policy is deserving by assigning legislative value to it. Social constructions are captured, created, “used,” and “manipulated for political gain” in the policy making process as they participate in the dynamic process of change (pp. 207-208). Policies in place in various provinces or regions reflect that province or region's history, the policy making process, and echo social constructions of groups with political influence.

The history of public policy and legislation studies followed a very strong positivist tradition as policy makers were convinced of the rationality, and objectivity of policy, designing policies to achieve certain stated goals by using scientific analysis (Schneider & Ingram, 2008). The policy making process was supposedly objective and neutral, and the conceptual laws were claimed to be perfect; thereby a positivist scientific method was applied to fill legal voids when laws could

not cover all the existing and new real life situations. Concerned with the quest to discover what law is as opposed to what it ought to be, the positivist philosophy of law sees the normative essence of law coming from the commands of a sovereign power, which is rooted in the theory of Jeremy Bentham, the father of modern legal positivism (Campbell, 2004). Law is valid and enforceable because it is put forward by a sovereign power and not because it derives from a moral source (Capps, 2004). Legal positivists insisted that the legal realm is an abstraction completely separated from the moral world, thus treating law as devoid of ethics because law exists independent of its merits or demerits (Conklin, 2001). Therefore, substantive law is not connected to morality or ethics, which, some critics argue, leads to abuse of power by judges who may be following their own clouded personal or political views of the public interest perhaps "unaware of the political contestability of their social and economic assumptions," thus perpetuating class dominance (Campbell, 2004, p. 69). This separation of the legal and the moral worlds actually created a disconnection between the two realms and led to extensive criticism on the morality of applying substantive law that may not be ethical, and, thus, may create social injustice or inequality (Campbell, 2004).

Although still a predominant theory in Anglophone countries, legal positivism has been heavily criticized for its potential to disguise unjust power relations behind the mask of objectivity as the jurists and judges too often have represented the interests of "privileged men" instead of including gender, ethnic, and other minorities in the laws and their application (Conklin, 2001, p. 3). Based on these critiques, policy and legislation are not objective, neutral, and perfect abstractions, free of biases and prejudices, and completely devoid of humanity and ethics. This research complements the positivist view of policy and legislation with the analysis of the legal realm as part of the socio-cultural, economic, political and historical processes the legislator is engaged in, recognizing policy's embeddedness (Polanyi, 1957; Granovetter, 1985).

Co-operatives are social constructions based on inter-subjectivity; a reality that is created and shaped by the members in everyday life experiences through a social, economic, political, and cultural process that enables people to meet common needs and aspirations. In pursuing certain co-operative development strategies over others, the co-operative movement reveals its own socially constructed set of values. Using the social constructionist epistemology will help us to

unpack and understand the discourses deployed by the movements and, possibly, answer questions about what co-operative development mechanisms were most critical and how movement actors undertook co-op development in an effective manner. A reflective and critical view will assist us in making sense of the reasons that led policy makers and the co-operative movement to pursue co-op formation and development in a specific way and at a particular time in a certain country or region. Social constructionism is the appropriate epistemology to study this inter-subjective co-operative phenomenon as it derives knowledge from human understanding, social experience, and conventions. In contrast to a traditional objectivist view, this research understands policy in a constructionist and critical manner, exploring how policy both reflects and is reflected in its socio-cultural environment.

2.3 Theoretical Perspective

Elaborating a theoretical position is a matter of spelling out our perspective on the social world and grounding our assumptions about language, communication, and individual and community identity (Crotty, 1998).

Critical Theory, Critical Legal studies, and Cultural Studies: Critical Theory, and critical legal studies with an emphasis on cultural studies, will be the theoretical lens of this research. There are multiple critical theories as this current line of thought is continuously evolving, adapting to new times, re-conceptualizing itself, and remaining open to disagreements (Kincheloe & McLaren, 2005). Despite the difficulties in conceptualizing critical theory, constructions such as power, class, freedom, equality, independence and justice lie at the core of this theory. Critical researchers claim that societies in the West are not “unproblematically democratic and free,” because individuals get subtly accustomed to living in “domination” and submissiveness rather than “equality and independence” (p. 303). Questioning economic determinism, this posture proposes the production of practical and cultural knowledge, and deconstructs power relations that are socially and historically constructed in action.

Economic determinism holds the supremacy of the economic structure over politics; thus social and political change, and the course of history are determined by economic forces of supply and

demand, and therefore, subject to the dictates of economic relations (Restakis, 2010). However, critical theory challenges this view arguing that it misses the fact that economic rationality is “embedded” within social relationships and is thus subordinated to the social realm (Polanyi, 1957; Kincheloe & McLaren, 2005). Adam Smith (1801) held that the individual desire to improve one’s condition in life would lead the economy to prosper with foods, products, and employment available to everyone, because farmers, labourers and business people would benefit the economy and society by striving for their own wealth. In their pursuit of accumulation of richness, farmers, for example, would sell some of their crops to others and would hire workers to produce more food, leading to some people having jobs and the many having plenty of food (Smith, 1801). Thus, those individual efforts of rational individual actors are the invisible hand that turns self-guided gain into social and economic benefits for everyone, according to Smith (1801). However, he assumed that “as people became wealthier, they would reach out to help the less fortunate in the community”, which has not necessarily happened because self-centred gain does not protect the public interest (Nickels, McHugh, McHugh, Cossa & Sproule, 2010, p. 47). Smith is often interpreted only selectively to confirm the view of economic rationality. He was not, however, a laissez-faire economist but a professor of moral philosophy, and more interested in ethics and the justice needed to balance self-interest: “Society, however, cannot subsist among those who are at all times ready to hurt and injure one another” (Smith, 1759, p. 147). He also warned in the *Wealth of Nations* that because managers could not be trusted to steward “other people’s money, . . . negligence, profusion and malversation” would inevitably result within corporations (Smith, 1801, p. 259,264). Critical theory challenges the consequences of economic determinism in that it causes inequalities, social injustice, widens the gap between the rich and the poor, and accentuates class differences, and by doing so critical theory proposes to deconstruct constructions such as class, power, and freedom.

As opposed to legal positivism, critical legal studies (CLS) is a legal school of thought born out of American legal realism, and a consequence of the critical social movements of the 1960s and 1970s in the U.S, namely the civil rights movement, the women's movement, and the anti-war movement (Engle, 2010). Legal realism was sparked by the “failure of capitalism” experienced in the great depression of the 1930s; thus it denounced the cyclical crises of capitalism, and challenged mass unemployment and the social upheaval caused by it (Engle, 2010, p. 276).

Following that line of thought, critical legal studies questioned the economic status quo, capitalism, for it seems to encourage "wars for profit" as happened with the Vietnam war rooted in the pursuit of raw materials, i.e. oil and rubber, according to Engle (2010, p. 276). Picking up where legal realism left off, CLS started as an attempt to demystify the positivistic legal myths or determinations created by mainstream Western legal thought, myths such as the complete separation of law and politics, the absolute objectivity of the law, the abstraction of the legal realm and its claims of disconnection from morality, and the autonomy of the individual (Engle, 2010).

This CLS school of thought views laws as arbitrary because they perpetuate class differences; therefore, it questions policy makers, legislators, lawyers, and judges for "failing to understand the social and political content of law, its reflection of inequalities, and its potential for injustice" (Goodrich, Douzinas & Hachamovitch, 1994, p. 4). While the law claims to hold individuals equally, they are, in reality, not free and autonomous actors because they are determined by the social and political environment around them which limits their choices and determines their circumstances (Goodrich, Douzinas & Hachamovitch, 1994). By linking the reason of law to the politics of the legal institution, critical legal theory exposes the connections between law and politics, both of which are interconnected and embedded in the social world and participate in the construction of the social realm (Goodrich, Douzinas & Hachamovitch, 1994). Although reminiscent of the ideology of the European critical theory, specially the Frankfurt School and its proponents, no formal linkage has been established between that school of thought and critical legal theory (Bauman, 2002). Critical legal studies scholars intend to unveil the underlying assumptions in the legal text and in the legal institutions to expose their ideological content and the ways that current legal structures stall social and political progress (Bauman, 2002). This philosophy of law proposed emancipatory, critical, and self-reflective analyses of the legal status quo to achieve "radical legal" and social change (Bauman, 2002, p. 4). By exploring how "legal consciousness," the beliefs and assumptions responsible for shaping the law and its institutions, is created, defined, reproduced and changed, it is possible to unravel the often hidden process of development, interpretation, and application of the law as it is determined by the "mind-set of the participants in the legal process" (Bauman, 2002, p. 45). In this way, law becomes an instrument to aid certain economic arrangements, thus legitimating questionable economic and political

forms of domination from which people could get liberated if they critically questioned the status quo (Bauman, 2002). Once citizens become aware of the dominant "consciousness," they can choose between maintaining that consciousness or, as critical legal proponents hope, breaking with it to pursue social transformation (Bauman, 2002, p. 45).

Research on cultural studies emphasizes critical historical, political, economic and cultural discourses considering how lived experiences are the consequences of structures that are a legacy of the past (Denzin & Lincoln, 2005). For Stuart Hall (1980), culture is not to be observed or studied passively, but it is a "critical site of social action and intervention, where power relations are both established and potentially unsettled" (Procter, 2004, p. 1). People are producers and consumers of culture, and for that reason, culture and language operate within a framework of power, institutions, and politics that views culture as the space at which every day struggles between dominant and subordinate groups in society happen (Procter, 2004; Hall, 1980). In this sense, Hall (1980) takes the Gramscian concept of "hegemony" referring to domination through consent and coercion whereby power is negotiated between dominant and subordinate classes as "members of a class are able to persuade other classes that they share the same class interests" in order to gain and maintain power (Davis, 2004, p. 46). The power of hegemonic groups may be present in laws, regulations, social norms, customs, etc, and may not be highly visible but rather subtle, taken for granted, and thus accepted as natural (van Dijk, 2003). In this scenario, domination occurs through ideology and discourse, and culture acts as a vehicle to consent (or not) to the dominant power, and eventually to resist it as well. For instance, the way that media consistently reinforce the status quo reveals a class struggle in a "dialectical relationship" that allows the dominant class "to maintain power while apparently giving the people exactly what they want" (Davis, 2004, p. 47).

Grounded in critical theory, cultural studies is an interdisciplinary approach that analyzes how meaning is created, disseminated, and reproduced through cultural practices, beliefs, institutions, and political, economic, or social structures (Hall, 1980). Cultural studies concerns itself with the study of the meaning people attribute to certain objects, practices or phenomena, as, for example, the study of recent local and global resistance movements opposing capitalist hegemony. In the same way, using a cultural studies lens lets us study the early co-operative movement of Spain to

discover how meaning was created and reproduced through social, political, and economic institutions to express resistance, or consent, to dominant power structures.

By studying the co-operative movement, this dissertation explores the influence of such institutions on politics, since institutions "shape actors' identities, power and strategies" (Putnam, 1994, p. 8). In turn, "institutions are shaped by history," for "individuals do not choose them under circumstances of their own making," and individuals' "choices in turn influence the rules within which their successors choose" later on (p. 8). The way institutions act and respond to change and challenges "is shaped by the social context within which they operate" (p. 8). An example of this phenomenon is the British "Westminster-style" constitution imposed on imperial colonies, which yielded very different outcomes in different parts of the world (Putnam, 1994, p. 8). Or the case of the Italian regional governments created in 1970s that produced very different outcomes for similar organizational structures, because institutional trajectories and performance were shaped by their different local socio-cultural environments in every region (Putnam, 1994). Cultural studies let us discover and deconstruct the trajectory of the policy making process and the role institutions play in it, shaping and being shaped by it. As well, public policy is, to some extent, the result of the interplay of determining historical, political, social and economic components. And those factors profoundly condition the effectiveness of public policy in its application.

Co-operatives are fundamentally linked to efforts to reduce socio-economic inequality in society and they are capable of providing an "alternative" economic model to "humanize" the current economic system (Craig, 1993; Restakis, 2010, p. 3). Democratic decision-making, collective ownership of the means of production, empowerment of ordinary people, and equal distribution of profits are central features of the co-operative model that captured the imagination of many communities around the world. In fact, the founders of the co-operative sector in Spain (as in Italy and elsewhere) were committed to social criticism, democracy, equality and the empowerment of individuals, and understood (or realized) that co-operatives were the type of organizations that that gave them the greatest control over their social and economic fates. Critical theory, critical legal studies, and cultural studies provide the tools for understanding how those co-operative movements in Spain grew so strongly, how they were able to influence the

social constructs of policy makers and achieve constitutional recognition, and all the subsequent regulations and policies that contributed to co-operative growth. As well, cultural studies provide the appropriate lens by which to place the co-op movement and its co-operative development strategies in a meaningful historical, socio-cultural, political and economic context.

Institutional theory: Institutional theory helps keep visible the social constructions and discourses involved in creating, maintaining, and changing organizations and their behaviours, and in accessing understanding of strategic alternatives (DiMaggio & Powell, 1991; Greenwood, et al., 2008; Scott, 1995). The institutional logic is a matter of “the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality” (Thornton & Ocasio, 1999, p. 804). It helps explain the micro and macro organizational processes and constructions. If an organization is to legitimize an organizational form different from the dominant logic, it “involves modifying or displacing that logic in order to establish new legitimacy criteria” (Suddeby & Greenwood, 2005, p. 36).

This theoretical perspective is crucial to study institutional frameworks and their influence on co-operative development. This theory helps test how change in institutions happens and the role of people inside and outside organizations advocating for change and building legitimacy by establishing new discourses to the point where new goals and practices become the taken-for-granted way organizations work. This institutional theory aids in laying out the discursive strategies of institutional players (consciously and unconsciously) reshaping the logics and replacing the dominant economic lens with socio-cultural ones, for instance, that respond to different notions of responsibility to community. Changes in both the broader environment and within groups create pressure for change as people try to make sense of the complexities and contradictions of emergent and other issues in their worlds. The taken-for-granted becomes more visible and thus contested by those with the resources to do so.

2.4 Methods

Mixed methods: The literature review is complemented by document analysis and semi-structured interviews. The existing literature is limited in two important ways. First, it is far from extensive or comprehensive. Second, it often perpetuates positivistic views of the policy and other environments traditionally taken for granted without a sufficiently critical reading of the policy and other sources. By contrast, this dissertation follows a social constructionist epistemology and a theoretical framework informed by critical legal theory, institutional theory, and cultural studies; all of which complement and even challenge the positivistic view, arguing that the observer does not passively absorb truths already existing in the object of study but rather actively participates in the process of constructing meaning, and, hence, creating the reality a posteriori (Weinberg, 2008). The interdisciplinary, comparative, and critical re-reading of the co-operative movement will fill a gap in the research literature, which insufficiently understood, persistently undervalued, or even rendered co-operatives invisible in mainstream institutions.

For this reason, this research invests in critical document analysis including organizational literature, legislation, federal and provincial legislation, and the annual reports of co-operatives. Often constructionist critical researchers share a commitment to “documenting how some aspect of reality is constructed through the efforts of social actors” (Linders, 2008, p. 468). Although the literature is rather scarce, the fact that the author studied law in Spain and Argentina is helpful. The author is able to understand and interpret policy and legislation within the civil law tradition. In methodological terms, working across linguistic, cultural, and legal boundaries to engage with and understand practices in Spain serves as an aid to counter the geographical, linguistic, cultural, political and legal barriers that separate Canada from other places. This is a major contribution of this dissertation in both complementing and complicating the positivist literature in the field and bringing into dialogue the literature and public policies of the different jurisdictions, regions, and nations that are not well known to one another due to geographical, linguistic, cultural, political and legal divides .

Semi-structured interviews with co-operative leaders, practitioners, and policy-makers are necessary in order to complement the literature and fill in gaps in the archive and in understanding of processes and outcomes. Interviews allow the researcher to access a part of reality that otherwise would not be available “such as people’s subjective experiences and attitudes” (Perakyla, 2008, p. 869). Key informant interviews, using an indirect snowball technique, helped complement the written data and provide more comprehensive insight into what have been the most effective co-op development strategies. Consistent with indirect snowball sampling techniques, participants were encouraged to pass along researcher contact information to other potential participants rather than passing their contact information along directly to the researcher. Participant observation, such as attending meetings and other community events, was useful in understanding the way organizations work. The interview questionnaire used is in Appendix 1. The consent forms in Appendices 2 and 3 were used to gather informed consent from interview participants and the Transcript Release Form was used to help ensure that when attributed quotations are to be used, participants approve the transcribed version of data they provided (Appendix 4).

The key informants in the research are the co-operative leaders, practitioners, and academics in compared settings. This Question Template provides the content for semi-structured interviews, with the researcher adding questions as required and letting interviewees expand the responses as necessary. Interviewees were asked to share their experiences and visions on the factors that encouraged the development of their co-operative organizations with an emphasis on the policy contexts, and to identify documents that should be consulted to confirm (or not) their perceptions (Linders, 2008). The questions were intended to guide the participants and to generate thoughtful responses. In some cases, depending on the nature of the response, the discussion went outside the expected scope of the interview. The respondents were allowed, even encouraged, to tell the stories they thought most important. It has to be noted that the views, perceptions, and comments of the Mondragon (and Manitoba) interviewees, are personal and subjective, though no less meaningful and valuable for this study.

Eight interviews in the Basque region (Spain) were done in Spanish, as that was the most familiar language of the interviewees. Since that is also the author’s mother tongue, interviews

were easily translated into English. The interviewees in Mondragon belonged to co-operative apex organizations, such as the Mondragon Co-operative Corporation (MCC), and the Executive Council of Co-operatives of the Basque Country, the highest public organ to advise Basque public authorities on all matters affecting co-operatives, as well as legal experts, academics of the Mondragon University, and a co-operative founder.

Building on the author's previous research experience, nearly 35 interviews were conducted by telephone, by email and in person. Key informants had been identified by the author of this dissertation for a previous research project in the Emilia-Romagna and Trentino regions of Italy, the Mondragon region of Spain, and Manitoba. Although anonymity and confidentiality was assured to all of the interviewees, those from Mondragon have chosen not to remain anonymous. For that reason, many of the interviewees in this dissertation are identified by their actual name and title, and their opinions quoted to preserve accuracy of their thoughts and views. Canadian interviewees preferred to remain anonymous. In those cases, positions are used, such as a government spokesperson, a co-operative manager, a co-operative board member, and a co-operative founder.

2.4.1 A personal reflection note on methodology

The process of developing this dissertation has been a major intellectual undertaking. Having been trained in traditionally empiricist disciplines such as law and business, interdisciplinary practices were unknown to me, and entailed a discovery as they opened up a new world of critical self-reflection and analysis to approach and complement positivistic subjects. Precisely, as "discourses constitute perceptual lenses through which realities are understood," dominant legal and business discourses offer a limited perception of reality (Findlay, 2002). Interdisciplinary studies guided me to understand that there are other realities outside set frameworks that question the legitimacy of the dominant by "demystifying prevailing orthodoxies" (Findlay, 2002). Doing critical and comparative research has allowed me to pursue depth and academic rigour to study multiple disciplines as I never did before.

At the personal level, my relationship with Brendan Reimer, a key community economic development figure in the Manitoba CED and co-op scene, opened up doors for me to get immersed in the co-operative sector of the province. That facilitated my personal development and growth as I worked as a research intern developing the novel co-operative development tax credit for the Manitoba co-op sector. In that context of self-immersion in the Manitoba co-op scene, studying the development of the Mondragon group gave me the critical distance to analyze and reflect more rigorously on how and why institutional change was possible. In this way, by "making visible the invisible" (Findlay, 2002), the interdisciplinary, critical and comparative approach has allowed me to reflect on the process of institutional change in the co-op sector in Manitoba.

2.5 Conclusion

By reflecting on the research purposes, questions, and the choices of epistemology, theory, methodology and methods, this chapter establishes an interdisciplinary and critical theoretical framework for the dissertation. Co-operatives, their development and public policies, are part of the social realm requiring a constructionist epistemology to make sense of them. Studying public policies and legislation requires a CLS approach to understand them as a consequence of social, economic, political and historical factors that shape them, that participate in the creation, interpretation and application of laws, and reinforce constructions such as class, power, freedom (Goodrich, Douzinas & Hachamovitch, 1994). This theory helps test how change happens and the role of people inside and outside organizations advocating for change and building legitimacy by establishing new discourses to the point where new goals and practices become the taken-for-granted way organizations work. This institutional theory aids in laying out the discursive strategies of institutional players (consciously and unconsciously) reshaping the logics and replacing the dominant economic lens with socio-cultural ones, for instance, that respond to different notions of responsibility to community. Changes in both the broader environment and within groups create pressure for change as people try to make sense of the complexities and achieve change.

Along those lines, institutional theory will help this study to test how change happens in the external environment and within organizations to modify the internal logic of institutions (DiMaggio & Powell, 1991). Using institutional theory to study the role of social actors to seek change within organizations and institutional frameworks will aid this research to understand the evolution of co-operatives as they adapt to the external environment, shedding light on the co-operative development process in Mondragon and Manitoba. Finally, mixed methods, including literature review and a critical reading of literature and policy, are complemented with semi-structured interviews with co-operative leaders, practitioners, and policy-makers to fill the gaps in the literature.

CHAPTER III. CO-OPERATIVE DEVELOPMENT OF MONDRAGON IN THE BASQUE REGION (SPAIN)

The literature review established a gap in understanding of co-operative development with a particular emphasis on the role of public policy and legislation in the development of the co-operative movement. Drawing on a social constructionist epistemology, critical legal theory, cultural studies, and institutional theory to set an interdisciplinary and critical theoretical framework, this chapter (and the larger dissertation) uncovers the socio-cultural factors associated with the development path of the co-operative movement and its meanings assigned in legal and other discourse. This chapter traces how discourses produce meanings that help or hinder co-operative development, and how dominant meanings compare with meanings assigned by members.

Within this framework, this chapter traces the historical, political, economic and socio-cultural production of the co-op movement in the Basque country up until ULGOR, the first Mondragon worker co-op, was created in 1959. Mixed methods, including literature review and a critical reading of literature and policy, are complemented by semi-structured interviews with Mondragon co-operative leaders, practitioners, and policy experts to aid the understanding of the emergence of the development path. How and why Mondragon emerged as it did and what lessons we can learn from the particular convergences of structural factors and the initiatives of social actors will be discussed in this chapter. While chapter III analyzes the external environment and conditions that led to the creation of ULGOR in 1956 (as a worker co-operative in 1959), chapter IV picks up the story and elaborates in detail the internal particularities of Mondragon development that helped reshape that external environment, the key role of Caja Laboral Popular (the credit union) and other co-op support organizations, financing mechanisms, as well as Spanish and Basque legislation and policy development. The strategic co-op development choices social actors made and the institutions they created given the external historical, social, political, and economic conditions will be studied in chapter IV. Although the dominant emphases of the chapters are respectively the external and internal factors, it is important to acknowledge that those external and internal factors are not discrete realms but are systematically connected and mutually shaped.

3.1 Historical context: Role of the Spanish dictatorship and socio-economic depression

To understand what the Mondragon Group is and how co-operative development unfolded, we must first understand the historical context of the co-operative complex and the socio-cultural, economic, legal, and political conditions that caused social actors to seek a different destiny, one that nurtured co-op development and policies in the Basque region and led to the current situation where the co-operative model is now deeply ingrained in all aspects of Basque life and culture. The region is home to a total population of 2,162,944 in three provinces (Alava, Bizkaia, and Gipuzkoa) within a larger population of 42 million, according to the official government statistics published by the Basque Institute of Statistics (Eustat, 2010). Supporting over 1,800 co-operatives (see Table 3.1), people shop in co-operative supermarkets, offering products from agricultural and manufacturing co-ops; make travel arrangements in co-op travel agencies; send their children to co-op kindergartens, elementary, and secondary schools; prepare for the work life in a co-op technical college or university; and satisfy their banking needs at the local credit union (Mathews, 1999).

Table 3.1 Number and Type of Co-operatives in the Basque Country

TYPE	Total	Alava Province	Bizkaia Province	Gipuzkoa Province
Agricultural Co-ops	97	49	24	24
Co-op Groups	1	1		
Consumer	34	4	16	14
Co-op Corporations	1			1
Credit co-ops or credit unions	1		1	
Second tier and further	48	10	12	26
School co-ops (all levels)	94	11	44	39
Communal exploitation of land	6	2	2	2
Mixed co-ops	27	4	3	20
Business Services Co-ops	36	5	8	23
Professional Services Co-ops	45	7	22	16
Worker co-ops	1072	147	464	461
Housing co-ops	251	106	74	71
Small-sized worker co-ops	92	13	44	35
TOTAL	1805	359	714	732

Source: Executive Council of Co-operatives of the Basque Country Annual Report (2009, p. 35).

If the co-operative model is now at the heart of their quality of life, the Basques had to go through a lengthy and turbulent process to achieve that quality of life in a stable political environment and relatively prosperous regional economy. In fact, the history of Spain in the 20th century was plagued by political, social, and economic upheavals and monarchic crises. King Alfonso XIII held power precariously as popular support gradually decreased in the first two decades of the 20th century. Constant social, political, and military unrest was, in part, a consequence of military discontent, and a grassroots socialist movement threatening to overthrow the monarchy. An important part of the historical context is the existence of socialist elements opposing the monarchic system and the strong power conferred on the military. The

socialist movement mobilized people in common cause in ways that recall the convergence of movements (for instance, women and labour resisting socio-economic, educational, and political exclusion) in the nineteenth century that gave rise to the co-op movement in England. This resistance to the monarchy and the military precipitated a movement consciousness around structural barriers and the need for a system that better represented popular needs and ambitions of the Basques. That socialist popular movement gave rise to a series of democratically elected municipal governments in 1931, fruit of "the spread of republican and anti-monarchist sentiments in Spain", and military pressure led Alfonso XIII to flee the country and seek exile abroad (Forrest, 2000, p. 7). According to Preston (2006), "the attitude of the military reflected the hope of a significant section of the upper classes that, by sacrificing the King, it would be possible to contain the desires for change of both the progressive bourgeoisie and the left" (p. 36). However, that desire did not materialize because the Republican Popular Front, which enjoyed the support of most of the parties of the left and was opposed by the parties of the right and the centre, was brought to power in the elections of February 1936 (Forrest, 2000). The country was deeply divided. The right represented most of the military, the Church, upper class businessmen, bankers, and landowners, while the left was represented by the Republicans supported by agricultural and urban workers, most of the educated middle class, and many intellectuals.

Although elected by popular vote, the Republican government was not easily accepted by the right. In July 1936, a military uprising led by General Francisco Franco unleashed a three-year civil war leaving the country socially and economically devastated. Across Spain the working class took arms to keep the elected Republican government in power and fought against the Nationalist forces but the Republicans were brutally overpowered. General Franco leading the Nationalist forces and the fascist Phalanx or "Falange," defeated the Republicans who stood for democratic values and proposed a republic respecting regional self-determination and local autonomies (Mathews, 1999). There is no absolute certainty regarding the human cost of the civil war. One account of the casualties mentions at least 50,000 executions during the civil war whereas more recent estimates are around 500,000 including executions and deaths in concentration camps, not considering deaths by malnutrition, starvation, and war-engendered diseases (Roberts, 2006).

The Spanish Civil War precipitated the onset of World War II and acted as a mirror of the confrontation between the “progressive and democratic forces of Spain” and the “evil of the time,” fascism, Nazism, and right-wing ideologies that did not want the liberal and progressive policies established by the Spanish Republican government, according to Johns Hopkins University political science and public policy scholar, Vicente Navarro (2006, p. 1). Both opposing groups in the civil war, the Nationalist forces and the Republicans, counted on international assistance. Hitler’s and Mussolini’s troops, tanks, and equipment assisted General Francisco Franco in the fascist coup and subsequent civil war whereas the Soviet Union and Mexico contributed with supplies to the Republicans (Navarro, 2006). International support for the regime and the opposing groups is also noted throughout Franco's dictatorship after the civil war ended (1939). The Spanish Republican forces collaborated with the allies in defeating the Nazis in Europe; for instance, "the first battalion to liberate Paris in 1945 consisted of Spanish republicans." Naturally they hoped that at the end of World War II, the allies would aid in overpowering one of Hitler's ideological collaborators in Europe, the Franco regime, but those hopes proved to be in vain (Navarro, 2007, p. 1).

The end of World War II, however, left the U.S. positioned as the victorious international leader in need of strategic military bases abroad. Spain was one of the countries that provided the U.S. with that possibility as Franco’s anticommunist position was viewed positively by the American government (Navarro, 2007). After the war, Navarro (2006) explains, “the U.S. and the Vatican became the major supporters of the dictatorship” (p. 1). Not that Franco had changed his long pro-Hitler stance, but in the aftermath of World War II, he desperately needed international acceptance for his dictatorial regime and was willing to please the allies to “make them forget his support for Hitler” (Navarro, 2007, p. 1). And so six American military bases were established in Spain, according to a 1945 Pentagon study (Navarro, 2007). The Franco dictatorship was one of the “most hated” in Europe for its brutality and cruelty, yet the Truman administration gave Franco the acceptance he needed when Eisenhower visited Spain to give that regime international recognition (Navarro, 2007, p. 1). The U.S. even proposed that the Franco regime join NATO, but the European allies rejected the proposal (Navarro, 2007).

Nationalist forces opposed reforms such as “women’s suffrage, land reform, expansion of labor union rights, and establishment of the public school system” that eliminated religious content of programs as well as suspending government subsidies to the Catholic Church, among others (Navarro, 2006, p. 1; Torres Gutierrez, 2002). The elite affected by those reforms, “the Church, large landowners, banking interests, and large employers,” supported the military (Navarro, 2006, p. 1). The rights of women acknowledged by the Republican constitution of 1931 were annulled. Women could not become university professors or judges, testify at trial, or manage their own property (which was the domain of their husbands or fathers). Franco restored the privileges that the Catholic Church had before the Republican government and that were abolished by the constitution of 1931 during the Second Republic. The Concordat of 1953 established state salaries for Catholic priests, a special tax regime for the Catholic Church, and made Catholic marriage “compulsory for all baptized citizens”; “divorce was outlawed, and all books, magazines and newspapers were censored by the Catholic Church” (Torres Gutierrez, 2002, p. 1). The Concordat also gave to the Catholic Church control over “the cinema, television, and radio industries, and all the educational system” (Torres Gutierrez, 2002, p. 1).

As explained in chapter II, public policy and legislation reflect predominant social constructions of powerful groups in society (Schneider & Ingram, 2008). Such a pattern is observed in Franco's legal changes. That Franco controlled the media and educational system added to the capacity to naturalize the underlying assumptions in Franco's legal reforms and in the legal institutions, masking elite interests and their ideological content as those legal structures became an instrument to legitimate questionable economic and political forms of domination (Bauman, 2002). Critical legal studies, critical theory, and cultural studies let us unveil discourses of national unity (the vision of a Catholic Spain) or religious ethic (and specifically the redemptive qualities of hard work) that further rationalized and legitimized uneven development, involving privilege for some and disadvantage for others. Franco's speech on June 24, 1938, stated his vision for the motherland or “patria”; after the vision of a “Catholic Spain,” people were divided into “Spain” and “anti-Spain”, his allies (the military, the Church, large landowners, and the elite) and his opponents (the working class and the intellectuals) respectively (Richards, 1996, p. 150). Popular opposition by those disadvantaged by the reforms, who felt the injustice and inequality, persisted throughout the years of the dictatorship.

The result of the civil war (1936-1939) was a dictatorship that lasted until 1975 and was characterized by oppression, massive killings, and denial of the Spanish regional nationalisms and local identities. Even a couple of months before Franco's death in November 1975, he signed "execution orders for five of his political opponents" (Navarro, 2006, p. 1). Franco imposed a "policy of terror" with the purpose of spreading fear to deter resistance beginning with the military coup d'état, continuing in the civil war, extending throughout the years of his dictatorship (1939-1975), and reaching "genocidal proportions" (Navarro, 2006, p. 1). This political iron cage plus the socio-economic devastation of the country created the appropriate convergence of structural factors that led grassroots social actors to imagine and pursue a different destiny. As Foucault (1978) reminds us, domination breeds resistance and the possibility of self-transformation.

Not only did Franco use incarceration, death, and concentration camps to stifle opposition, but he also applied unfair food rationing to an already severely impoverished population. The early years of the regime (1940s) are commonly known as the "Hunger Years" when thousands died of starvation, malnutrition and war-engendered diseases. The regime had control over the food distribution to the population through local authorities, who decided who was deserving (or not) of food based on political factors (Richards, 1996). Between 1939 and 1944, some accounts revealed approximately 200,000 deaths as a result of food scarcity and diseases on top of the war casualties (Richards, 1996, p. 161).

Opponents of Franco's rule and policies who had not died during the civil war saw their property confiscated, and had to flee the country or suffer incarceration, forced labour, execution, or death in concentration camps. Many lawyers, doctors, politicians, university professors, journalists, and skilled workers went into exile causing a brain drain to an already broken and devastated economy. Having most infrastructure destroyed in the civil war, and skilled labour mostly gone or assassinated, Franco imposed a policy of "autarky" or economic self-sufficiency for Spain which cut off almost all international trade (Richards, 1996, p.150). The economic isolation of Spain made sense in the light of the extreme nationalism he was pursuing, but it proved to have disastrous consequences for the country.

Autarkic economic policy and industrialization were pursued at the expense of the working class. Redemption through hard work, a Catholic notion, was the justification the regime used for the desired industrialization to take place on the shoulders of the peasants without the need for international trade or financing. For instance, depending on the area of the country, peasants' wages were as little as 3 or 4 pesetas/day for men and 1.25 pesetas for women while the working day extended from 6:00 a.m. to 10:00 p.m. (Richards, 1996). Cultural legitimization of oppression using religious arguments (sins committed against the regime had to be punished) was used to manufacture consent to domination and legitimize the exploitation of the working class to benefit the regime and its elite supporters (Richards, 1996). The peasantry had the responsibility to make economic development happen to redeem the sins committed against the regime during the civil war (Richards, 1996). Large landowners and industrialists principally benefited from the official lowering of agricultural wages (Richards, 1996). Eventually, the exploitation paid for the financing of industrialization in the mid-late years of the regime as the country saw some economic recovery in 1960s. It was no coincidence that the main six banks in Spain were closely tied to agricultural investments, which saw significant profits achieved mainly through the exploitation of the peasantry (Richards, 1996). Collective sacrifice in the name of patriotism was unevenly applied since it mainly assisted the enrichment of the existing elite and the further correction and impoverishment of the working population. For example, Franco's speech on June 24, 1938, stated that his ideal of "spiritual unity, social unity, and historic unity" for the motherland or "patria", had to be achieved through "disciplin[ing]" its people (as cited in Richards, 1996, p. 150).

3.1.1 Manufacturing consent to domination during the dictatorship years

Domination and power occur through policy and law but also require support from cultural practices that legitimate and reinforce that domination (Gramsci, 1978; Herman & Chomsky, 1988). The civil war and the dictatorship years were harsh on Spain. Government banned trade unions, associations of workers, and political parties such as the PSOE Socialist Party, the Esquerra Republicana of Catalunya or Leftist Republican of Catalonia, the Communist Party of Spain, and the Basque Nationalist Party. All this domination was rationalized in terms of Franco's vision of Spanish national identity: a nationalist construction of Spain that proclaimed

unity at the expense of all dissenting voices. His speech on June 24, 1938, stated the essence of his ideal of “spiritual unity, social unity, and historic unity” for the motherland or “patria,” so that the nation was to be “remade” after the vision of a “Catholic Spain,” and its citizens “disciplined” (as cited in Richards, 1996, p. 150). Franco's discourse of Spanish identity as unity and tradition underpinned the social and political domination of his regime. By pursuing his iron unity, people were divided into “Spain” and “anti-Spain”, those for his regime and those who should be eliminated (Richards, 1996, p. 150). It was a “blending of Catholic and fascist” ideologies that led the reorganization of society under the patriotic, nationalist discourse that justified also economic domination by sacrificing and exploiting the working class to the benefit of the regime and major land owners (Richards, 1996, p. 156).

Although the law and policy enforced the dominant ideology, speeches and cultural practices were needed to mask the force and encourage consent on the part of the people, as Gramscian (1978) hegemony makes clear. Culture is always needed to supplement and support the work of the law; culture is the space in which every day struggles between dominant and subordinate groups in society happen (Procter, 2004; Hall, 1980). The unwritten or unspoken cultural values embedded in legal and other systems and priorities become visible when groups confront inequality, injustice, and oppression. Although elite prestige ensured that elite views and values came across as common sense, as the only or natural order of things, such consent could not be assumed. In the contested terrain of social experience, Fiske (1992) reminds us, “Consent must be constantly won and rewon” to keep resistance and struggle in check (p. 291).

National unity continued to be created, disseminated, and reproduced through cultural practices, beliefs, institutions, and political, economic, or social structures (Hall, 1980), as instruments of power for the Franco regime. From Andalusia (south Spain), flamenco and bullfights were promoted as the national tradition to enforce cultural unity while regional cultural difference was severely suppressed. Although several regions in Spain, such as Catalonia, the Basque Country, Galicia, Valencia, and Baleares, had their own language and culture, Castilian Spanish was the only language people were allowed to speak. All others were prohibited and eliminated from government and commercial documents, media, and school system. However, such nationalist attempts to impose “one nation, one people, one language” produced resistance (MacClancy,

1996, p. 207). Constructing a linguistic, cultural, and national unity appealed to Franco's ideal of Spain. And yet, he unwittingly collaborated not in creating that cultural unity, but in originating "divisive conflict and plurality" while accentuating regional nationalist sentiments, for instance, the Basque terrorist group ETA (MacClancy, 1996, p. 207). Ironically, Franco himself came from Galicia, a region with its own language and culture different from the rest of Spain.

In relation to regionalisms, the regime's goal was to eradicate different identities, cultures, and languages that had sustained people and their traditions for centuries. The Basque Country's, Catalonia's, and, to a lesser degree, Galicia's claims to self-determination, autonomy, freedom to speak their own language, to choose local and regional governments, and to celebrate their distinctive identity had no room in the dictator's plan. Franco's speech on March 18, 1940, in Jaen (Andalusia) outlined his centralist nationalist framework: "the suffering of a nation at a particular point in history is no caprice; it is spiritual punishment, the punishment which God imposes over a distorted life, upon an unclean history . . . to develop a purified nation" (as cited in Richards, 1996, p. 153). He imposed the idea that only Andalusian and Castilian traditions were representative of the true essence of "Spanishness (or Hispanidad)" (Richards, 1996, p. 151). All the other culturally different regions had to be "purified" and so they felt the iron repression through physical and ideological terror (p. 153). The nationalist discourse was an instrument for socio-economic and political domination. Despite Franco's best efforts to further consolidate social power in text and talk (van Dijk, 2003), the singular construction of Spain failed to persuade a diverse Spanish population. The Basque and other regions developed, as a consequence, anarchist and syndicalist sentiments.

3.2 Basque uniqueness and a culture of resistance

Among the Spanish peoples, the Basques, particularly, are a different ethnic group that inhabited the region for millennia before the Roman and Visigoth invasions to the Iberian peninsula. Their language, Euskera, is today the only remaining "non-indo European language spoken in Western Europe" (MacClancy, 1996, p. 208). According to German linguist Von Humboldt, Euskera may have been, or at least been connected to, Iberian, the ancient language of the peninsula spoken 2,500 years ago (MacClancy, 1996). However, that possibility may never be fully proved

since there is no present knowledge of the forms of Basque language 2,500 years ago although there might be some philological and phonological similarities between Iberian and Basque due to geographical closeness of the West Pyrenean Mountains (MacClancy, 1996, p. 208). Lack of scholars' agreement on the certainty of the origin of the Basque language and ethnicity does not deny the fact that a group of people, perhaps defined as "proto-Basques," have lived in the region, and preserved their language and culture for, at least, millennia until today (MacClancy, 1993, as cited in MacClancy, 1996, p. 209).

Following European anthropologists of the late nineteenth century, nationalisms were justified on racial grounds, and so Sabino Arana, the founder and leader of the Basque Nationalist Party concluded that the relative lack of "contamination" of the Basque language spoke to its pure race (MacClancy, 1996, p. 209-210). By early twentieth century other nationalists were more worried about the relative loss of the language since the Spanish government had established by late nineteenth century primary schools whose instruction programs were in Castilian Spanish (MacClancy, 1996). Afraid for their language, Basque authorities opened in 1920 the first "ikastolas" or "schools using Euskera as the primary medium of instruction" (MacClancy, 1996, p. 210). Such cultural revitalization was a key part of the Basque resistance movement much as the cultural renaissance of Aboriginal people in Canada supported their social, political, and economic resurgence from the late sixties (Battiste and Berman, 1995) .

These attempts to preserve language and self-determination came to an end with the military coup of 1936 and the subsequent military regime. Until that moment, the Basque region enjoyed political and fiscal autonomy based on thirteenth- and fourteenth-century laws, which were recognized by the constitution of 1931 (Heidberg, 1989). The Basque government elected in 1936 went into exile during the civil war, the Basque Nationalist Party (PNV) hid underground, and the speaking of Euskera in public settings was forbidden and "brutally repressed" (MacClancy, 1996, p. 210; Richards, 1996; Mathews, 1999). As a consequence of Franco's oppression, anarchist sentiments flourished principally among the youth, who decided to form ETA (Euskadi ta askatasuna, "The Basque Country and Freedom") in the early years of the dictatorship (MacClancy, 1996, p. 210). A cultural and humanist movement in the beginning (late 1950s), ETA turned into an armed, separatist, revolutionary, and terrorist organization.

Unlike the national Catholic Church, the Basque clergy together with the locals supported the republican forces against Franco in the outbreak of the civil war (1936). Nationalist sentiments and political motivation united the local church and the Basques to confront Franco's legion (Mathews, 1999). Values such as "democracy, equality and social solidarity" were evident in the representative system of local, provincial, and regional government the Basques achieved under the Second Republic (1931-1936) (Mathews, 1999, p. 184). As committed supporters of their trade unions and guilds of professions and skilled crafts, the Basques developed "anarcho-syndicalist agricultural and industrial" organizations in the same period, giving institutional shape to their democratic and egalitarian values (Mathews, 1999, p. 184).

The moral and economic devastation of the Basque region together with the military occupation allowed nationalist sentiments to grow strongly against the Franco dictatorship. The infamous "Years of Hunger" affected the area as the regime's economic policy, political reprisals, and destruction of some of the infrastructure caused severe poverty, emigrations, and "massive unemployment" (Mathews, 1999, p. 184). One of the exceptions to such destruction was the Basque industry as Franco knew it would be important if there was going to be an economic recovery for Spain (Heidberg, 1989). Not only was the economy and the socio-cultural and political make-up of the region devastated, but also the local institutions and community organizations were torn down, and the small local industry that remained ended up under the regime's control. In the words of Father Arizmendiarieta, "we lost the civil war and we became an occupied region" (as cited in Whyte & Whyte, 1991, p. 242). Yet, the experience of occupation would fuel autonomy sentiments and lead to a stronger stand on Basque cultural identity.

Above all, in the light of the progressive Basque ideology and unique identity, their history has to be read as a continuous effort to defend their cultural identity and socio-economic autonomy in the face of the central Spanish government's attempts to assimilate them (Mathews, 1999). Following institutional theory (DiMaggio & Powell, 1991), the emergence of co-operatives in the Basque region can be understood as a product of the social constructions and discourses involved in creating, maintaining, and changing organizations to craft a new model that fit with

the people's beliefs, assumptions, and values in a context of oppression. According to institutional theory, how change happens is a consequence of the role of people inside and outside organizations establishing new discourses, replacing the dominant structures with new ones that respond to their socio-cultural identity and needs, and building legitimacy to the point where new goals and practices become engraved in organizations. It is not surprising that co-operatives were so appealing to the Basques because they represented the opportunity of freedom from socio-cultural, economic and political domination. Strong desires of autonomy, self-determination, equality, democracy, and horizontal approaches to enterprises and society to correct the class division were captured in co-operative forms of socio-economic organization. Co-operatives were understood as a natural place to claim Basque ethnicity, values, and cultural identity and at the same time to answer economic questions of autonomy and self-determination (Interviewee and a founder in 1963 and CEO of the tools co-op COPRECI Pedro Mendieta; Mathews, 1999). The fact that Mondragon, a small town in the Guipuzcoa province of the Basque region, became the epitome of the Basque nationalist movement is in part due to the establishment of the co-operatives and the leadership of Father Arizmendiarieta in that regard.

3.3 Father Jose Maria Arizmendiarieta and Catholic Social Doctrine

The striking “Years of Hunger” made no exception of the town of Mondragon. It suffered the same wave of devastation experienced by the rest of the region and the country in the aftermath of the civil war. In this context, Jose Maria Arizmendiarieta¹, “an innovative social thinker” with the sort of “distinctively hands-on approach” associated with Jimmy Tompkins and Moses Coady in Eastern Canada, arrived in Mondragon to be the parish priest and counsellor for the Church's lay social and cultural arm, “Accion Catolica” or Catholic Action in 1941 (Mathews, 1999, pp.185,192). The previous parish priest had been shot by Franco's forces. The son of a farmer of modest means, Arizmendiarieta was born in the village of Marquina, located twenty-five kilometers from Mondragon in 1915. The oldest son of four, he lost one eye due to a childhood accident, which prevented military service and led to a career as a priest. During his

¹ The priest's full name is Jose Maria Arizmendiarieta. However, his disciples and acquaintances used to call him Don Jose Maria, and others used Arizmendi as a short version of his last name. This dissertation uses all of them interchangeably.

young years at the Catholic seminary of Vitoria, “he became known for his love for the Basque language and culture” (Mathews, 1999. p. 191).

Arizmendiarieta interrupted his seminary studies to join the Republican forces as a writer and editor of its trade union newspaper *Eguna* in 1936 during the civil war years (Mathews, 1999, p. 191). Unfortunately, he was captured by Franco’s army and had an execution order pending in 1937. In those years, many Basque priests were executed, hundreds were incarcerated in concentration camps, and others went into exile (Morrison, 1991). Among other things, the museum of the Otalora Institute in Mondragon exhibits today a list with the names of the executed prisoners crossed out. Fortunately, due to an administrative oversight, his execution order was lifted, and Arizmendiarieta went back to finish his seminary studies (Mathews, 1999). The Basque clergy was typically allied with the Republicans because of their community roots. Usually, local priests in the region would be Basques sharing the same identity and culture, coming from rural areas, and preaching in Euskera (Clamp, 2003). For that reason, Franco viewed the Basque clergy as enemies opposed to his rule and the occupation of the Basque region.

Co-operatives helped empower a devastated population and regain lost confidence, voice, and decision-making power. Arizmendiarieta was struck by the situation in Mondragon on his arrival in 1941. An extensive interview with him by Whyte & Whyte (1991) before his death in 1976 details: “in the postwar period the people of Mondragon suffered severely in the repression. I had known some people in Mondragon but when I came back they all had either died, or were in gaol, or in exile” (p. 242). As the counsellor of Accion Catolica, he set to the task of empowering the local people to restore their self-esteem and confidence, and to heal their spiritual and moral lives. First, he concentrated on the youth. “These young people,” explained Jose Maria Ormaechea (1993), one of the five “pioneers” and founder of the first co-operative ULGOR, were “full of religious fervour, had been born in very humble families in years of social collapse and were on the verge of pathological hunger” (p. 15). Government had rationed the most basic foods: “bread, cooking oil, vegetables and meat” (p. 15). And the authorities tended to assign food based on political orientations as a reward or punishment (Richards, 1996). Arizmendiarieta found a morally and economically devastated town in need of solutions to a

repressive government. Therefore, it is not surprising that the teachings of Arizmendi would capture the imagination of youth, thirsty for hope and opportunities (Ormaechea, 1993). In this context, co-operatives awoke sentiments of hope, opened up socio-economic opportunities, and provided a safe space to practice democracy, self-determination, and autonomy.

To call Don Jose Maria, as he was often called among his parishioners, an “innovative social thinker” falls short of the truth (Mathews, 1999, p. 192). His philosophy and thought were the driving force behind the establishment of the largest worker co-op group in the world. For him, private property had a "functional value" as it allows common people to access ownership of the means of production, which would lead to empowerment of workers (Whyte & Whyte, 1991, p. 253). Therefore, Arizmendiarieta led a shift in the traditional paradigm of sovereignty of capital over labour, as he educated young minds in the possibility of sovereignty of labour instead. Collective ownership of private property was connected to co-operativism because the dispossessed could imagine collective ownership as a way to uplift their precarious socio-economic and political situations. This paradigm shift that he proposed can be understood in terms of institutional theory (DiMaggio & Powell, 1991) because he replaced the dominant economic lens with socio-cultural ones that responded to a notion of social responsibility and values more adequate to the situation of the Basque community. Changes in both the broader environment and within groups created pressure for change as social actors tried to make sense of the complexities and contradictions of emergent issues and realities in their worlds. That which had been taken-for-granted became visible and thus contested by those with increasing will and resources to do so.

Having studied classical economic theory in the seminary days, Arizmendiarieta was very disenchanted with capitalism, which led him to imagine and craft a different paradigm. In an interview with Whyte and Whyte (1991), he said this of capitalism: “a social monstrosity that a system of social organization is tolerated in which some can take advantage of the work of others for their exclusive personal profit” (p. 254). Arizmendi drew a distinction between the capitalist and the co-operativist in that the first “utilizes capital in order to make people serve him,” whereas the second “uses it to make more gratifying and uplifting the working life of the people” (as cited in Whyte & Whyte, 1991, p. 254). Jose Maria Ormaechea (1993) recalls that Don Jose

Maria always insisted that the solution would be found in structural reforms rather than casual ones, in the sense that it was necessary to change the sovereignty of capital to sovereignty of labour over capital. Although he was convinced of the need for structural reforms in society, violence and revolution were not in his mind the wisest ways to proceed.

State socialism and capitalism reproduce the same social monstrosity that Arizmendi thought was unjust and incompatible with human values (Whyte & Whyte, 1991). In both systems there is “a minority of the strong in power exploiting the others for their own benefit...the same greed, the same cruelty, the same lust, the same ambition, the same hypocrisy and avarice,” Arizmendi concluded (as cited in Whyte & Whyte, 1991, p. 258). Following Catholic French philosophers of his time, Jacques Maritain and Emmanuel Mounier, Arizmendiarieta was of the view that the revolution to take place should not be confronting the systems in place but rather planting the seeds of a new civilization in them through education to provide the professional and ideological skills necessary to encourage the development of new co-operators (Ormaechea, 1993).

Social transformation was his goal and the co-operative model the vehicle to achieve a new just social order. Arizmendiarieta embraced co-operativism because in his vision co-operatives are schools and centres of training and maturation of the people that will achieve a new social order (Mathews, 1999). In that sense, co-operatives would assist people to become masters of their own destiny, as Evangeline leaders Moses Coady and Jimmy Tompkins thought (Mathews, 1999). And for that end, work was not a punishment but the realization of the Creation of God and collaboration with the plan of God (Ormaechea, 1993).

The roots of Don Jose Maria’s thought and teachings are to be found in Catholic Social Doctrine. The papal encyclical, “Rerum Novarum” (Of New Things--On Capital and Labour), written by Pope Leo XIII in 1891, is considered the foundation of the Catholic Social Thought. The encyclical officially started the Catholic Social Doctrine and provided the basis for a deeper analysis of social problems emphasizing social justice (Damberg, Hiepel & Canavero, 2005). The document was crafted under the strong influence of the prominent English Cardinal Henry Manning and the German Bishop Wilhelm Emmanuel von Ketteler (Mathews, 1999). In large measure, this encyclical came as a response to the extreme poverty and exploitation of the

working class as well as the social and economic inequalities caused by the Industrial Revolution (Curran, 2002). The Catholic Church understood liberalism and socialism as threats to itself and the people. Liberalism captured the ideals of the Reformation, the Enlightenment, and the capitalist underpinnings of the Industrial Revolution that were often seen by Catholics as responsible for the Church losing ground. Such loss of ground the Church associated with the related “evils” of rationalism, individualism, secularism and the unscrupulous quest for profits exploiting human beings with no labour rights (Curran, 2002). Although the Church agreed with Karl Marx’s claim regarding the disastrous consequences of capitalism’s Industrial Revolution for the urban poor and the workers, the Catholic Church did not align itself with socialism because of its association with atheism, materialism, determinism, and the subordination of the individual to the totalitarian state (Curran, 2002). The *Rerum Novarum* proposed, to some extent, a middle ground position between the extremes of capitalism and state socialism although that view is contested by those who see the Church’s complicity with violent repression at home and abroad.

The encyclical also urged remediating the abuses of unfettered capitalism with worker organizations such as trade unions and collective bargaining bodies while recognizing “the legitimacy of and need for greater participation of all people in private property,” and calling for “limited state intervention,” defending the right to private property against the claim that the state should own all things (Curran, 2002, p. 9). Private property, in this view, also helps to secure human freedom because without possessions of any kind, a person can be reduced to a kind of slavery in which labour is not rewarded. However, individual rights bring also a responsibility to care for and promote the common good (Damberg, Hiepel & Canavero, 2005). The encyclical opened the door to legitimate collective associations as a natural right and collective ownership of property whether it was the right of workers to form trade unions, workers' associations, or the right to own property collectively as in the case of co-operatives. This papal letter called for Catholics’ commitment to more active involvement in the co-operative sector as well as in labour associations in order to improve the socio-economic situation of the working classes, and the most disadvantaged in rural and urban groups (Damberg, Hiepel & Canavero, 2005). These teachings gave Arizmendi the idea of empowering

ordinary people through their participation in private property in a collective form, the co-operative model.

Building on *Rerum Novarum*, Pope Pius XI issued an encyclical forty years later in 1931, “*Quadragesimo Anno*” (The Fortieth Year-- About the Social Order), further stressing the condemnation of the extremes of communism and capitalism and the social inequalities of the time. As had Arizmendiarieta, the encyclical letter assigned a social function to private property considering it central to freedom and development of the human being (Curran, 2002; Mathews, 1999). *Quadragesimo Anno* warned of the dangers of international capital to states which could lose autonomy, at the same time as small-medium size businesses lacking access to capital could be engulfed by larger companies. Above all, the papal letter called for solidarity and subsidiarity embodied in self-governing civic institutions and work places to reconstruct the social order in a fairer manner (Mathews, 1999). Indeed, self-governing work places, such as the Mondragon co-operatives based on solidarity, are practical examples of what *Quadragesimo Anno* considered requirements for the new social order (Mathews, 1999). In fact, Herrera (2004) argues that Don Jose Maria crafted the Mondragon co-operatives’ principles and values after Catholic social principles such as “social justice, economic justice, the dignity of persons and their work, and solidarity” (p. 57).

Even though Arizmendiarieta was profoundly influenced by the Catholic Social Doctrine, Mathews (1999) has suggested that he had read and understood distributism, a political philosophy of the late nineteenth century proposed by prominent thinkers of that time such as Hillaire Belloc, Cecil and Gilbert Chesterton, Cardinal Henry Manning, and Bernard Shaw among others. Like the Catholic Church, these thinkers were deeply affected by inequalities caused by class divisions, including the widespread poverty of late-Victorian and Edwardian Britain. They condemned employers who exploited their workers, treating labour as a mere commodity, and placed an emphasis on the social purpose of private property. Distributism went further, though, to suggest that ownership of private property and the means of production should be in the hands of the majority rather than the few to achieve a fairer social order (Mathews, 1999). A “society of owners,” writes Mathews, proposes a distribution of property as widespread as possible, opposing “the concentration of property in the hands either of the rich, as under

capitalism, or of the state, as advocated by some socialists” leading to a more just social order (p. 2).

These ideas made sense to Arizmendiarieta because he sought to empower the poor of Mondragon through the creation of a new type of enterprise that blended Catholic social principles with distributist thought and provided solutions to the impoverished community. Following institutional theory, the institutional logic of organizations involves “the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules” by which social actors create organizations that conform to their reality and desires (Thornton & Ocasio, 1999, p. 804; DiMaggio & Powell, 1991). Institutional theory helps explain the process and constructions of Arizmendiarieta at the micro and macro organizational level. Drawing on strands of different logics, different ideas and meaning making, he sought to create a new type of organization that amalgamated different social and political ideologies of the time while fitting with the local needs of his parishioners. In this sense, Jose Luis del Arco Alvarez (1983), head of the Syndicate of Co-operation, a public administration department under the Ministry of Labour, described Don Jose Maria's character in this way: "the greatness of Father Arizmendi rests in his prodigiously creative mind and the clarity of his vision that put him ahead of his time to translate into reality his utopias, and in his leadership to create from zero an endeavour in a hostile political and economic environment to achieve the impossible in less than three decades" (p. 30). That is, Don Jose Maria is an “institutional entrepreneur” with the resources and capacity to translate interpretive frameworks and create new institutional forms (DiMaggio & Powell, 1991).

The theoretical framework advocated by distributists saw a blending of the practical approach of the Antigonish Movement in Canada, and a more developed form of distributism in the Mondragon co-operatives (Matthews, 1999). The breakthrough of Father Arizmendi in keeping the co-op spirit alive was to find the perfect balance between the interest of the individual member and the interest of the co-op as well as the interest of the worker members and their agents, solving in this way the principal-agent dilemma, according to Mathews (1999). The employees and their agents are all member-owners of the business, which may prevent the representatives from acting against or outside the interests of the worker-members.

Arizmendiarieta devised the concept of individual capital accounts that members own and can

pull out upon leaving the enterprise or in the case of retirement which created a real economic incentive for individuals that translated into continual member support for the co-op. He also crafted the policy of reinvesting around 45% of the net profits into the indivisible reserves to preserve/enhance the financial strength of the enterprise. According to Mathews (1999), it is in those policies where the Mondragon worker co-ops seem to have an advantage in relation to consumer co-ops as the loyalty of the consumer members to the co-op appears to be more volatile than the commitment of the worker members to the organization.

As Antigoniish Catholic priests Moses Coady and Jimmy Tompkins did in Atlantic Canada, Arizmendiarieta committed to community development through adult education by creating first the Polytechnic or Trades School in 1943, institutions necessary to build the co-operative experience in 1956 (Mathews, 1999). Out of that significant creativity described by del Arco (1983), Arizmendi came to the conclusion that the two pillars to a genuinely strong co-operative movement are "education and credit" toward which he dedicated his efforts as soon as he arrived to Mondragon (p. 31). The Mondragon co-operatives are, among other factors, a product of the process of adult education, and the crucial leadership of Arizmendi who understood education as critical to human development, and the socio-cultural environment necessary for co-operative development. Highly committed to the community, Don Jose Maria started study groups, raised funds for a sports club with a soccer field, and established a medical clinic in Mondragon. Concerned with the lack of education opportunities for young people, he proposed that his new trades school be independent of Union Cerrajera, the existing largest employer in town and a metal foundry company that already hosted a trade school mostly for the children of the employees (Whyte & Whyte, 1991).

Arizmendi mobilized the parishioners by creating a parents' association to fundraise for a technical school by placing boxes around Mondragon town to receive donations. Mobilizing parents and students was important in building a grassroots community development initiative that opened doors to local people living in poverty in an isolated town where youth had no opportunities. Finally, the "Escuela Profesional" school opened in 1943 with twenty students and the numbers increased steadily as more places were made available (Ormaechea, 1993, p. 18). One of the interviewees for this dissertation, Jose Ramon Elortza, a former professor at the

Polytechnic College, recalled “at fourteen years old I was the ‘errands boy’ of Don Jose Maria; my brother at seventeen was a student and already a teacher at the technical school. Don Jose Maria created the school in the framework of open accessibility to the community. Students had to help the school doing active fund raising, and that is how I could afford to study which opened up my future career.”

The content of the school curricula went beyond technical subjects such as mathematics, physics, mechanics, chemistry, and electricity necessary to form engineers and mechanics. Subjects such as religion, sociology, humanities, democracy in the workplace, self-management, conflicts between labour and capital, and the reform of private enterprise were also taught (Ormaechea, 1993; Mathews, 1999). The school thus provided a well-rounded formation based on critical thinking and the sort of conscientization commended by Freire (1970). This education was the foundation of co-operative development providing both technical knowledge and the critical thinking skills that gave students the tools to question their socio-economic and political situation and imagine a different future. Another interviewee, Pedro Mendieta, a founder of COPRECI, one of the first co-operatives, mentioned that “Don Jose Maria was very adamant in seeding values and skills at the school to make us become agents of change, ‘social entrepreneurs’ as it is known nowadays. He stirred up our minds in class to the point of us being ready to change our society.” His persuasive powers precipitated a consciousness around structural barriers and the need for a system that better represented the values and ambitions of the Basques. His sermons would be filled with catholic social teachings in mass, and in the classroom his critical discourse would plant the seeds of the new social order, so that after 13 years, the technical school spawned the first co-operative in 1956, the creation of some of the school graduates. Arizemendi’s leadership—as a priest in the community and as an educator in the school—was crucially instigated social change and garnered support from the community. An innovative social thinker with a hands-on approach, he guided his disciples to construct a new type of economic enterprise, based on older consumer and agricultural co-op precedents in the Basque region. The worker co-op model embodied social teachings, Basque values, and religious beliefs adequate to the needs, social imaginary of the community, and political reality of oppression.

As truly collective action organizations, the co-operatives were the perfect fit for disempowered people living in a dictatorship with their ethnic identity denied and language and culture forbidden. The co-operatives provided them with the vehicle to regain lost autonomy, self-determination, and freedom from social, economic, and political domination. The commitment to education remained paramount. The initial school graduates who wanted to pursue further studies did so taking up distance classes on engineering at the University of Zaragoza. After decades of the co-operative experience, the Mondragon University was established in 1997 by amalgamating the existing trade schools and research centres.

3.4 Mondragon co-operative development, 1956-1959

Having invested years in adult education and community development in Mondragon, Arizmendi's discourse instigated a consciousness around the structural barriers people lived with, and convinced them of the need for a system that better represented the aspirations of the parishioners. Arizmendi came to the conclusion that "to achieve social change, the best way was to reform the investor owned firm model and replace it with a business model incarnating social justice, equality, and fairness" (Interviewee Jesus Goienetxe). Five of the first eleven graduates of the Polytechnic School decided to start their own venture following Arizmendi's suggestions. The existing metal foundry factory of the town, Union Cerrajera, would not allow for worker participation in the decision-making; nor would it let workers become shareholders (Mathews, 1999). The top management and the board of the company considered Don Jose Maria a negative influence on the workers and did not approve of the ideas he was seeding in the workers at his classes (Ormaechea, 1993). Realizing that the "structural reform" of the company they were dreaming of was not going to take place, the young graduates were eager to start "a new business that could lead to social transformation," explained key informant Pedro Mendieta. Thus, Luis Usatorre, Jesus Larranaga, Alfonso Gorronogoitia, Jose Maria Ormaechea, and Jose Ortubay whose first or second letter of their last names came to form the acronym "ULGOR," as they called the newly created enterprise, left Union Cerrajera where they were working to become the pioneers of a new endeavour in 1956.

The beginnings were not easy as the five pioneers did not have the capital necessary to start the new business. The fact that the Provincial Savings Bank ignored Arizmendi's business plan to start a "malleable cast iron foundry" did not discourage him and his disciples (Ormaechea, 1993, p. 20). The five pioneers had to look for other avenues to secure the initial capital needed for the venture. Thus, pooling their own savings plus community loans, they reached \$361,604, a sum considered an enormous amount of money at the time in a poor town within a depressed economy (Whyte & Whyte, 1991, p. 34). The loans had no guarantees other than the integrity of the pioneers and their friendships showing the support of the community and the value of their social capital (Morrison, 1991). They needed the industrial equipment, tools, and the building to start their own business. An opportunity arose in 1955 to manufacture oil stoves since a retiring industrialist advertised the sale of his business dedicated to the art of metal spinning to make brass stove tanks (Ormaechea, 1993). Once they bought the company in 1956, finding an appropriate business legal structure was the next challenge so first they had to incorporate the business as an investor owned firm.

Several interviewees noted that the existing co-operative law of the time did not provide for the type of business, the worker co-op model, that Arizmendi envisioned. As a result of the centralist dictatorship, Spanish regions were not permitted to have their own democratically elected provincial or state legislative bodies, as a federal system allows. Legislative powers were concentrated in the dictator's hands, which meant that the laws were crafted in Madrid, the capital of Spain, far from the communities where they would be applied, and did not represent popular interests. The co-operators did not have the opportunity to deal with their own legislative authorities in the Basque region that could have been more sensitive to their needs and closer to work with. The existing federal Co-operative Act of 1942 was designed for agricultural co-ops and agricultural credit or rural banks, and submitted those organizations to the authority and intervention of the government which banned their autonomy (Atienza Mazias, Merino Mar & Ruiz Huydobro, 2004). Worker co-op legislation did not exist at the time. For lack of a better legal model, Don Jose Maria pursued an initial incorporation of the enterprise as a traditional investor owned firm to get the production going, and so ULGOR opened its doors on November 12, 1956, with 24 workers to manufacture British-designed Aladdin paraffin stoves (MacLeod, 1997; Mathews, 1999; Whyte & Whyte, 1991). Don Jose Maria kept looking for a legal form

that would allow for worker ownership, sovereignty of labour over capital, and economic democracy. Since such a legal figure did not exist yet, he was determined to find alternatives.

3.4.1 Legal origins of the co-operative figure in Spanish legislation, 1906-1942

To understand the legal reality at the time of the creation of ULGOR (1956), it is necessary to explain from historical, social, political, and economic points of view the evolution of co-operative legislation in Spain. Historically, the Agricultural Syndicates Act of 1906 allowed for the creation of agricultural co-ops as one form of agricultural association, as well as agricultural or rural banks to provide credit to agricultural associations. Its article 1 explained that "agricultural associations are the ones created by people dedicated to any agricultural profession or with a special interest in agriculture or animal production, whether they be owners, renters of land, or simple labourers." It also allowed for the creation of agricultural co-ops with the goal of sharing crops, seeds, grain, machinery and tools. Article 1, Section 8, of the law stated that those "rural cooperative institutions involved in agricultural activities which adopted the agrarian syndicate as their legal form" would be entitled to a variety of tax benefits, as well as legal personality as defined in Article 38 of the 1889 Civil Code. The law also regulated the figure of rural banks inspired by the Raiffeisen credit union model to provide access to credit to develop the farming industry. According to Zaar (2010), the rural banks and agricultural associations were heavily influenced by the Catholic Church, as they would often be managed by the priest of the local parish. The effectiveness of the credit activity of the rural banks is questioned as the social, religious, and political objectives were more important than the rural development since ideologically the banks supported the small farming production in a system of harmonic relationships religiously legitimated, and the subordination of the small farmers to the interests of the large producers and the Church (Zaar, 2010). Since the law had only eight articles, the description of agricultural co-ops was not fully developed, which led in practice to difficulties in differentiating agricultural societies or associations and co-ops (Zaar, 2010). Despite the setbacks, these organizations, associations, and banks were an important learning space that gave communities familiarity with and experience of working collectively in co-operatives or associations for mutual benefit, and set the precedent for beneficial tax exemptions.

The first co-operative law of Spain was passed by the progressive Second Republic in 1931. The Co-operative Act of 1931 sought to harmonize the underdeveloped definition of co-operatives that previous legal norms contained. Article 1 stated, "a Cooperative Society shall be understood as an Association of natural or legal persons, which in its organization and operation abides by the terms of the present Decree and does not seek profit, with the object of satisfying a common need for the social and economic betterment of all its members through joint action in a collective endeavour." According to Guinnane and Martinez-Rodriguez (2010), the law was inspired by the Rochdale principles and for the first time in Spanish legislation, it introduced the democratic principle of one member one vote and open-door policy, granting autonomy and control of the enterprise to its members, circumventing in this way the usual intervention of government and Church in the affairs of business. The creation of a reserve fund and a compulsory social fund was a novelty. Article 13 established that 10% of a co-operative's annual returns had to be set aside as part of a reserve fund, up to the point where the amount in this fund was equal to the total capital stock, a requirement that favoured the capitalization of the business. The mandatory social fund consisted of earnings set aside to contribute to the local public good or community projects, for example, a school (art. 27). The law aimed to favour the capitalization of the enterprise by using a mandatory reserve fund, and established the social purpose of the co-op by creating a social fund to benefit the community. This progressive legislation was not favourably received by those groups—for instance, the military, the Church and the large landowners—that considered dangerous the freedom of association, democratic principles, and autonomy of popular organizations (Zaar, 2010). The proliferation of socialist ideas among the working classes and the peasants, as well as the trade union movement, proved serious threats to those in power (Zaar, 2010). This law followed the same progressive spirit of many other legal changes—women's suffrage, land reform, freedom of speech and association, expansion of trade union rights, and a public school system eliminating the privileges of the Church—pursued by the democratically elected Republican government. This change in rights and reductions in elite privileges enjoyed before 1931 resulted in the military coup of 1936 led by Franco, as explained above. Naturally, the Franco dictatorship abolished the Co-operative Act of 1931 because the co-operative principles were not aligned with Franco's ideology, especially democratic participation and the autonomy of business.

The co-operative law of 1938 passed under the Franco regime had the goal of intervening in co-operatives to submit them to the authority of the government (Trujillo Diez, 2005; Aymerich Cruells, 2008). In its preamble, the law laid out its dictatorial intention: "the norms under which the direction of co-operatives is developed are not in harmony with the orientation of the New State; it is necessary to inspire the principle of authority in the functions of the co-operatives, which requires authoritarian governing organs that are competent and responsible." This law replaced the democratic governance principle of the co-operatives achieved by the Republican law of 1931 with an authoritarian system (Aymerich Cruells, 2008). Members of the co-operative would elect the president of the Board of Directors in the General Assembly, but the election had to be communicated to and confirmed by the Ministry of Public Works with the right of veto (Articles 5 and 6). Therefore, this legal precept intervened in the democratic process of the election of the Board and also in the autonomy of the organization, which ultimately violated the freedom of the members to associate and decide the direction of the enterprise. Uneven development was thus a product of the letter of the law that privileged some and disadvantaged others. Discourses of responsible and competent authoritarian bodies in co-operatives were used to rationalize and legitimize oppression. Public interest justified the heavy control of co-operatives by the Ministry of Public Works as they were considered dangerous organizations capable of letting people exercise democracy, and incubate communist socio-political ideas contrary to the regime's interests (Zaar, 2010).

After the co-operative law of 1938, approved by Franco in haste control and subordinate the co-op movement to his rule, a new and more complete law was passed in 1942. The General Law of Co-operation of 1942 aimed to deepen government control over these organizations. Article 3 established that "co-operatives will have their own by-laws but they will always be disciplined by the Syndicate of Co-operation under the Ministry of Labour." Further, the election of board members and president had to be approved by the Syndicate of Co-operation, a public administration organ with the authority to veto, annul, or confirm the appointments as well as any decision made in relation to the internal affairs of the co-operative (Article 26). It was mandatory that the Board members were militants of the Spanish Phalanx, Franco's Catholic fascist political party (Article 63). Every co-operative needed to have a Catholic chaplain appointed by the bishop, and a Surveillance Council appointed by the Syndicate of Co-operation

(Articles 60 and 27). According to Aymerich Cruells (2008), this law did not have the intention of supporting the spread and development of the co-operative movement; nor did it incorporate the co-operative principles, but rather controlled the co-operatives as ideologically dangerous organizations.

The Mondragon co-ops developed under the co-operative law of 1942, which remained in legal force for almost three decades until a new co-operative law was passed in 1974, a year before Franco's death. As is now clear, this law was not adequate to the co-operative identity and principles in forcing co-operatives to be under government control (Atienza Mazias, Merino Mar & Ruiz Huydobro, 2004). This legislation was "destructive" toward co-operatives as government aimed to restrict them because it identified them as enemies of the regime (Hoyt, 1989, p. 89). This legal insufficiency and socio-cultural discrepancy led to a disconnection between the legal realm and the practical world, creating two different and parallel realities, one where co-operatives acted internally following principles and values, and another one where they were subjected to the exigencies of the legal reality (Atienza Mazias, Merino Mar & Ruiz Huydobro, 2004). Jesus Goienetxe, a former president of Lagun-Aro, the social insurance co-op of the Mondragon Group, described Don Jose Maria's tenacity to pursue his vision as "endless," and his personality as "overpowering, capable of moving mountains"; "dressed in his usual religious robes, he would hitchhike all the way to Madrid (400 km approximately) to talk to Franco's government officials at the Ministry of Labour to ask them for a new legal framework that would fit with what he and the workers envisioned." The co-op legislation of the time did not fit with the worker ownership model the workers wanted for the enterprise they started.

In 1959, after three years of the industrial company, ULGOR, Arizmendiarieta achieved the approval of the public administration to incorporate the already existing private business as a worker co-op. A crucial part of his success in dealing with the dictatorship was the relationship he built with government after many trips to Madrid and much insistence. Jose Luis del Arco Alvarez, "an official advisor to the government department responsible for the regulation of co-operatives," eventually became a supporter of Don Jose Maria and guided him through the process of policy development (Mathews, 1999, p. 196). A lawyer by training and head of the Syndicate of Co-operation, the public administration department responsible for overseeing,

controlling, intervening, and registering co-operatives, del Arco became a friend and supporter of Don Jose Maria's ideas about the meaning and internal structure of worker co-ops. That much is evident in the accounts of Jose Luis del Arco (1983) himself: "Don Jose Maria came to me several times to discuss problems of the enterprise that the law did not give answers for, and I gave him the solutions because the letter of the law should be interpreted in its spirit, which goes beyond the simple letter" (p. 19). Those solutions were found in the crafting of the bylaws of the first industrial worker co-op, ULGOR. The fact that del Arco had the authority to grant or reject the incorporation of a co-operative was key to the legal change. A mere authorization of a co-op could be classified as a "neutral" policy because government did not attempt to destroy ULGOR, and it allowed the co-op to operate in the same climate as all other businesses without any advantages (Hoyt, 1989, p. 89). Del Arco's example and efficacy confirm that the law is not a neutral and objective institution whose truth waits to be discovered, as the legal positivists claim, but, on the contrary, is a product and consequence of socio-cultural, political, and economic processes within which social actors forge their own realities. A growing consciousness around structural barriers, precipitated by Arizmendi's discourse with Jose Luis del Arco, opened up the possibility for change to create a legal precedent more in tune with popular needs.

Aymerich Cruells (2008) wonders how it was possible in those years to create a worker co-op whose main activity was the manufacture and sale of appliances (paraffin heaters and oil stoves initially) to third parties non-members, with an evident for-profit motive. The law of 1942 did not recognize worker co-ops; nor did it allow for economic activities of co-ops with third party non-members; a co-operative was to do business with its own members without a profit motive (art. 15). Co-ops were permitted to keep only a small margin coming from the difference of the products or services sold to members and the costs of the inputs, a margin that was supposed to be kept as an indivisible reserve or reserve fund (art. 15). Yet ULGOR was permitted to incorporate as a for-profit worker co-op, and to do business with non-members. The answer to the question of Aymerich Cruells is located in innovation as the convergence of structural faults with social actors motivated to seek change that fits with their values and realities.

Officials legitimated the new legal figure, and also turned a blind eye to internal democratic practices once they were convinced that they were not a political threat to the regime; nor were

co-operators "red communists" (Aymerich Cruells, 2008, p. 416). "We saw Don Jose Maria go to the capital hundreds of times," interviewee Goienetxe commented. "Although he found initial resistance in the administration, he was not going to take 'no' for an answer and his determination and vision were so strong that eventually he convinced the officials that his ideas were worth pursuing, not a threat to the government, and very much needed by the community of Mondragon, and we could incorporate as a worker co-op with the permission of the administration." Even before its official incorporation, ULGOR was functioning internally as a worker co-op, though legally existing as an investor-owned firm. After the creation of this worker co-op, other industrial worker co-ops were created based on the legal precedent of the first incorporation, which will be explained in chapter IV.

3.5 Conclusion

Drawing on a cultural and critical lens, this chapter has traced the legitimation strategies of Franco's regime, and especially discourses of national unity or "Spanishness" and the cultural celebration of bull fights and flamenco music from South Spain that simultaneously denied the cultural identity of diverse regions of the country. Cultural legitimation of oppression using religious arguments manufactured consent to domination and legitimized the exploitation of the working class. While laws enforced the dominant ideology, cultural practices remained necessary supplements to keep the masses in check. Yet such legitimation strategies, or what Foucault (1991) calls "regimes of truth," have their limits and simultaneously produce resistances.

According to institutional theory (DiMaggio & Powell, 1991), change happens when the role of people inside and outside organizations establishes new discourses, replacing the dominant structures with new ones that respond to their socio-cultural identity and needs, and building legitimacy to the point where new goals and practices become engraved in organizations. New educational practices involving a process of conscientization allowed Arizmendi and his followers to craft a new type of organization embedded within and responding to their socio-cultural needs and identity in a context of domination. The emergence of the Mondragon co-operatives in the Basque region was a product of their social constructions and meaning making,

creating new enterprises and producing the legislative framework to allow them to function optimally. The autarkic economic policy imposed by Franco (Richards, 1996) benefitted the growth of the co-ops as it closed the doors to international trade, and in this way, it provided an internal market for the co-ops' products. In this context, the institutional entrepreneur, Arizmendi, was able to see and take advantage of the opportunities within a hostile external environment to develop the organizations.

An analysis of co-operative laws and their evolution underlines the embeddedness of policy and legislation in the social realm, the legal instruments a product of historical, socio-cultural, political, and economic processes shaping social actors, including policy makers. The result was the rewriting of legislation that privileged the groups in power and disadvantaged the rest. In this work, the convergence of structural factors and social actors, the persistence of Father Arizmendiarieta and the authority and insight of Jose Luis del Arco, found a solution to the legal limbo facing the first co-op, ULGOR. They were not to be undone by the letter of the law, but found creative ways to align the spirit of the law with the interests of the worker co-op. In other words, co-op development was not a consequence of favourable policies that supported the growth of the sector; rather social groups had to come together and put pressure on individuals and institutions to make the legal changes necessary for a worker co-op to exist legally in the first place. In this sense, Mondragon is an example of organizational and legal innovation that paved the way for further co-operative development.

CHAPTER IV. CO-OPERATIVE DEVELOPMENT OF MONDRAGON IN THE BASQUE REGION (SPAIN): A VALUES-BASED APPROACH

This dissertation intends to show the Mondragon group development, an already well-known story, in a new light, using different lenses to help rethink co-operative development and policy development. With this end in mind, chapter III analyzed socio-cultural, economic, political, and legal factors related to the development path of the Mondragon co-operative movement and the meaning making of key players, tracing how their discourses produced new meanings and material practices in the context of co-operative development. By unfolding how and why Mondragon emerged as it did and what lessons we can learn from the particular convergences of structural factors and the initiatives of social actors, chapter III emphasized the external environment and the conditions that led to the creation of ULGOR in 1956 (a worker co-operative in 1959). Chapter IV uncovers the strategic co-op development choices social actors made and the institutions they created given the external social, political, and economic conditions they faced.

Within this framework, the internal particularities of Mondragon development strategies, featuring the key role of Caja Laboral Popular (the credit union) and educational co-op support organizations, will be explored. Using the lenses of institutional theory and cultural studies, the development model of "co-operatives developing other co-operatives" (Pollet & Develtere, 2004) will be studied. Spanish and Basque legislation and policy development are important co-operative development tools that will be studied in this chapter as well. Again mixed methods, including literature review, a critical reading of literature and policy complemented by semi-structured interviews with Mondragon co-operative leaders, practitioners, and policy experts aid the understanding of the development path. How and why social actors successfully adapted in response to external changes and what lessons we can learn from their particular decisions and initiatives will be reviewed. In this way, this chapter will shed light on institutional frameworks using the Mondragon group example.

4.1 Caja Laboral Popular: The cultural influence in institutional forms

After the Spanish Civil War (1936-1939), the country faced a serious economic and social depression. Inspired by Catholic Social Thought, Jose Maria Arizmendiarieta, a priest with insight and considerable power, started a vocational school in 1943 in Mondragon which would in turn lead to the creation of the first worker co-operative ULGOR, with 24 workers manufacturing oil stoves and paraffin heaters (Herrera, 2004). After Father Arizmendi's perseverance in seeking the support of government officials, the administration granted the incorporation of ULGOR as a worker co-op on April 14th, 1959. ULGOR had 170 worker-owners by 1959 and plans for the creation of new co-operatives in the industrial sector were underway. From those humble beginnings, today the Mondragon Co-operative Corporation (MCC) is a third-tier co-operative business group made up of 281 firms (mostly co-operatives and joint ventures with for-profit companies and with state-owned firms overseas) organized into sectors: financial, industrial, distribution, and research and training. The sectoral groups are independent entities, yet they function within a comprehensive strategy coordinated by MCC. In 2011, the group consisted of 83,569 worker-owners, 43.6 percent women, total assets of 32.4 billion euros, and total revenue of 14.83 billion euros (MCC annual report, 2011).

Soon after ULGOR was in operation, Father Arizmendiarieta realized it was necessary to have a source of capital to satisfy the financial needs of the expanding industrial business. Credit co-operatives, such as the German Raiffeisen movement and the Italian rural credit union movement, were known but credit co-operatives did not have a solid image among the financial institutions in Spain (Ormaechea, 1993). The Ministry of Public Works through the Syndicate of Co-operation, responsible for the oversight of these entities, lacked resources and a coherent set of regulations to assist credit unions in correcting internal problems rendering them weak (Ormaechea, 1993). After suggestions of the Syndicate of Co-operation, the National Bank of Spain became responsible for the inspection of credit unions in 1971. The National Bank of Spain was an appropriate institution to regulate credit unions because it possessed the resources and technical expertise necessary to advise them (Ormaechea, 1993). Don Jose Maria created the concept of a co-operative bank or credit union in 1959 to provide capital for the expanding co-

ops, where Mondragon residents would deposit their savings, which would, in turn, be invested in local co-operatives (Cheney, 1999).

Values-based collective ownership was linked to discourses of ethics, fairness, and justice strengthened by appeals to popular Basque pride and independence. By living up to the co-op principles and engendering loyalty to the co-operatives in this way, the credit union, known as Caja Laboral Popular (CLP), provided financial and technical assistance for the creation of new co-operatives as well as funds for a co-operative social security system as the government did not provide social services such as health care, and pensions (Cheney, 1999; Whyte & Whyte, 1991). The Spanish Social Security System denied the co-op workers coverage, considering them self-employed independent owners (Ormaechea, 1993). That put a burden on the newly created credit union that had to assume the responsibility of insuring essential sickness, work accidents, widower's compensation as well as pension plans. Caja Laboral's statement of identity declares that it was "born in Arrasate - Mondragon as an instrument to attract popular savings and use these savings to finance the needs of the co-operatives of the group." Its "values" as an institution were "ethically committed to social projects, identifying opportunities for social intervention that encourage a fairer distribution of wealth". (Caja Laboral Popular, 2012, p. 1). Like the co-operatives and their founders, the credit union was committed to achieving a more just social order through a fairer distribution of wealth, addressing socio-economic inequalities through member ownership of the means of production. Between 1961 and 1976 the financial institution funded an average of four to five start-ups per year (Cheney, 1999). In 2008, CLP had 13.98 billion euros in assets and ranked among the largest financial institutions in Spain (MCC annual report, 2008). According to interviewee Jesus Goienetxe, "Caja played a crucial role in sustaining and co-ordinating strategies of the Mondragon co-ops in the first decades, and helped us during the harsh recession Spain suffered in the 1980s by being patient regarding the timing of loan payments and even forgiving some loans in special cases."

From its inception, the credit union Caja Laboral Popular rapidly became the core and heart of the Mondragon co-operatives. Arizmendi conceived the idea of a co-operative bank that could provide the capital required for start-ups and expansions in affordable terms, as well as the technical assistance needed to create and expand co-operatives. As a secondary goal, the credit

union would satisfy financial needs of the community. "Don Jose Maria's brainchild was the engine of the co-operatives," explained key informant Pedro Mendieta. "Caja Laboral was our backbone for decades," he added. "Together with the Polytechnical School, Caja Laboral is the most important institution created by Don Jose Maria." The polytechnic school provided a cadre of technicians to work in the industrial co-ops developing oil stoves and paraffin heaters. The credit union supplied capital on affordable terms to the expanding industrial businesses. Both are important pieces of the co-op development process stressed by the literature and the interviews (Canadian Co-op Association, 2007; Cornforth & Thomas, 1990; Fairbairn, Fulton, Hammond-Ketilson, Krebs, & Goldblatt, 1993; Harris, Stefanson & Fulton, 1996; Meek & Woodworth, 1990; Pollet & Develtere, 2004).

4.1.1 Bringing to life a democratic ideal of co-operation through some undemocratic means: forgery of documents, charismatic inculcation of young minds, and the innovative, legal but undemocratic structure of Caja that does not allow for town residents' membership

The initial economic success of the co-operatives encouraged the co-operators to think it unnecessary to create a financial entity as a source of capital and means of "social intervention." "Today, it does not make sense to conceive of Mondragon's co-op development experience without Caja Laboral, but the idea did not sink in among us at first" (Pedro Mendieta). As we have seen, Franco's autarkic economic policy had closed the country's doors to foreign products which opened up an internal market for the co-operatives' products. The Spanish economy was also expanding after twenty years of protectionism even though the state's budget was in a deficit position and the National Bank of Spain had restricted access to credit (Ormaechea, 1993). Those promising economic conditions (despite government deficits and limited credit) led many co-operative members to judge it unnecessary to create their own financial organization. However, Arizmendi's vision and leadership shed light on the need for their own credit institution, which would provide financial and technical independence from outside institutions. As Pedro Mendieta recalls, "Don Jose Maria's vision was to create our own support institutions to be self-sufficient from government and the private sector." Besides plain economic reasons of capitalization and access to knowledge and technical services, the creation of the credit union

was fuelled by Basque pride and autonomy, even though the idea was initially rejected by the workers. Interviewee Jose Ramon Elotza points out, "having our own financial institution was a light of pride in the midst of the severe poverty the community was suffering after the civil war." Following institutional theory (DiMaggio & Powell, 1991), the vision of the leader learning within and beyond the organization was decisive in creating, maintaining, and changing organizations to adapt to the external environment and its socio-economic, political, and other challenges.

Not only could the co-operators rely on a booming internal Spanish market for the co-ops' products thanks to the autarkic policy of Franco, which deterred them from starting other ventures, but they were also unfamiliar with financial concepts; both proved important impediments to starting up a co-operative bank (Ormaechea, 1993). "We felt a mix of impotence, lack of confidence and we totally rejected Father Arizmendi's idea," recalls Pedro Mendieta. "Please, imagine us 50 years ago," continues Mendieta. "We were modest and humble working class rural people in a small town of a depressed economy coming out of a civil war, barely becoming foremen, mechanics, engineers, and Don Jose Maria insisting that we turn into bankers overnight on top of that, well, we sent him packing." It is important to highlight that the workers were in their early twenties, some even teenagers, as opposed to Don Jose Maria, who was their teacher, an educated leader in his mid forties, and a priest in a deeply religious community. These different realities added authority to his figure contributed to an unbalanced power relationship.

Arizmendi did not give up and persisted with the idea of a credit union. The persuasive actions of an institutional entrepreneur, Father Arizmendi, are important in the development of the financial institution. Indeed, still fresh in people's minds today is the story of the first official meeting to discuss the creation of a credit union. Pedro Mendieta recalls, "It was early 1959, back then I was only a teenager and Don Jose Maria would try to convince us of the need for a credit union but financial concepts were too abstract for us; we couldn't grasp the importance of his ideas at first, but he kept insisting and calling meetings to explain to us how it would work." On March 15th, 1959, minutes to a meeting required by law to establish a credit union registered that the bylaws had been approved, and a provisional Governing Council and a board of auditors had been

appointed (Ormaechea, 1993). Although the official meeting never actually happened and the signatures on the document were forged by Don Jose Maria, the Ministry of Public Works authorized the creation of the credit union on July 28th, 1959. The co-operators whose signatures were forged seemed at first not really concerned because they did not think that "the credit union would ever become a real business, and we did not find it worth worrying about," recalls Pedro Mendieta.

The members' consent to a leader that could behave undemocratically on such occasions, can be explained within a cultural studies framework (Hall, 1980). The interviewees openly spoke of the forgery, and did not seem embarrassed or ashamed by Don Jose Maria's illegal actions. Once the organization succeeded with the support of the co-ops, it is plausible that members would have agreed that the leader was right in insisting on the creation of the financial institution. Although the bylaws of the existing co-operative, ULGOR, and the credit union outlined a democratic structure respecting equality values, in practice, the leader could impose his views on his teenage students at the Polytechnic School and young adults working in the co-operative. It is hardly arguable that the co-op functioned internally on a democratic and equal basis, but this unequal power relationship made sense in Spain's culture at the time. On the one hand, part of the country fought in the civil war against a dictatorship to defend regional autonomy, and to preserve the democratic government of 1936, as explained in Chapter 3. On the other hand, the fact that the dictatorship survived for almost forty years (1939-1975) means that it enjoyed popular consent among certain sectors. Spaniards lived a contradiction of hoping for democracy and equality, while remaining accustomed to top-down structures reproducing inequality at the institutional level. In this sense, the initial development of the Mondragon co-ops was a reflection of that cultural contradiction.

A charismatic but at times undemocratic leader, Arizmendi, could unilaterally impose his vision on his disciples without respecting the democracy and equality principles that he advocated. Education was the vehicle to indoctrinate youth into his world vision. He was of course trained in and habituated to the centralist and hierarchical structure of the Catholic Church. That fact added to the cultural habit of reproducing top-down structures. Despite his questionable methods, Arizmendi is an important example of an institutional entrepreneur that did what he thought was

necessary to forge change within organizations at the cost of illegal and undemocratic means, and perhaps, internal tensions. As the majority of the members do not see the need for change, imposing a certain course of action on to them would have created tensions and the possibility of failure of the venture.

However, Don Jose Maria persuaded his disciples to embark on such a venture by the end of that year. On December 24th, 1959, the first formal meeting was held in the headquarters of ULGOR, and the credit union was formally established (Ormaechea, 1993). Jesus Goienetxe described Don Jose Maria as "a leader with a future perspective" because "without the financial co-operation and expertise of the credit institution, it would not have been possible to develop the social experience that incarnates the Mondragon group today; time proved that he was right." Indeed, the credit union was the driving force shaping the development of new co-operatives and the glue holding them together (del Arco, 1983; MacLeod, 1997; Ormaechea, 1993).

The initial capital required to start up a credit union was obtained by Arizmendi from the four founding co-operatives and community support. Despite the fact that the "co-operativisation of money" was a novel concept in the town, Don Jose Maria would actually knock on people's doors to entice them to deposit their savings in the credit union, the success of which speaks to the cohesion and social capital of that community (Ormaechea, 1993, p. 43). Using the slogan he created, "bankbook or suitcase," to market the need for a local financial institution in the community, "Don Jose Maria appealed to the Mondragon residents insisting that they should invest in enterprise development through the industrial co-ops or poverty would lead to rural exodus to look for better opportunities elsewhere" (interviewee Jesus Goienetxe). In September, 1960, Arizmendi started a journal, *Trabajo y Union (Labour and Union)*, published out of ULGOR, to disseminate news on the co-operative and reflections on the co-operative culture, which acted as a medium to raise awareness in the community while fulfilling an educational role (Ormaechea, 1983).

His slogan "bankbook or suitcase" was premonitory, as time showed. The oil crisis of the 1970s shook the Basque manufacturing sector and left high unemployment. Pedro Mendieta recalls the discourse Arizmendi used to convince residents to deposit their savings in the financial

institution: "The savings will contribute to modernize the local industry and will prepare the entry of Spain in the European Common Market, so we need to create more enterprises in the region to absorb the population growth and to avoid the emigration. . . . Savings and capitalization will be channeled to invest locally in the promotion of our industry and in the creation of co-operative employment." Arizmendi's discourse had a convincing logic although "people had to trust that Don Jose Maria would know how to materialize the proposal through a bank," according to Pedro Mendieta. Interviewee Jesus Goienetxe reminds us, "In a Catholic community the figure of a priest carried a certain social prestige and a level of trust in those days, which encouraged people to support the local venture." Arizmendi constructed a discourse combining equal measures of social vision and pragmatism that would appeal to the Mondragon residents to deposit their savings in the credit union.

The institutional entrepreneur Arizmendi's innovation and creativity are behind the design of policy mechanisms and new institutional forms. Under Spanish co-operative law, the credit union fell under the type of "second degree co-operative" because it is a co-operative of co-operatives or second tier co-op, and it also included the workers of the bank as owners (Morrison, 1991, p. 50). Chosen by Arizmendi, the credit union adopted a hybrid legal form blending worker co-op features in a second tier co-op completely novel to the Spain of those times. Article 42 of the Law of Co-operatives of 1942 established that "credit co-operatives can be constituted by other co-operatives with the object to provide services to the individual members of the co-operatives forming the credit co-operative." The law was silent on allowing the workers of a credit union to become worker-members of the organization, although non-financial co-operatives could be constituted by physical persons and legal persons (art. 1). Don Jose Maria's commitment to the participation of labour in the ownership of the enterprise led him to devise the bylaws of Caja Laboral Popular with two types of membership (the founding co-ops and the workers), according to interviewee Pedro Mendieta. He presented the idea to Jose Luis del Arco, the head of the Syndicate of Co-operation, the responsible public administration department. He understood that the law did not forbid workers to become members of credit unions, but did not expressly allow it either, and by interpreting the law in its spirit, del Arco authorized Caja Laboral Popular to incorporate with a hybrid legal form (interviewee Pedro Mendieta) as he had in the same year the incorporation of ULGOR as a worker co-op creating a

legal precedent in Spanish law. Arizmendi's persuasive discourse was likely well received as a result of the relationship he developed with Jose Luis del Arco, inclining him to interpret the law in a creative way to benefit Mondragon initiatives.

As stated previously, the law is not so much an objective institution whose truths await discovery but a result of the convergence of structural faults and social actors seeking change. Arizmendi's discourse precipitated a growing consciousness around structural barriers in Jose Luis del Arco, which opened up the possibility for change to create a legal precedent more in tune with populist needs. Certainly, the Spain of 1960s made it possible to have government officials with a lot of power, capable of overriding written laws based on friendships and relationships. That made the change of policy easier than in other places and times where more formal processes are followed.

The governance of the credit union was designed to produce commitment and loyalty among all the co-operatives of the group. The co-ops associated with the credit union had the right to vote and sit at its Governing Council or Board of Directors. The General Assembly was attended by all the co-ops and the credit union worker-owners where a twelve-member Board or Governing Council was elected. The co-ops held 58 percent of the votes whereas the worker members of the credit union held 42 percent of the votes. The Board or Governing Council was formed with seven seats for the co-ops, four seats for the worker members, and one for the Congress Board (MacLeod, 1997). The distribution of voting power actually shows that the main objective of the credit union was to support the associated co-ops. In this formula, community depositors' participation is absent.

The design of the credit union did not allow for the community residents to become members of the organization as its workers and the co-ops were. The Caja devised a model of return on savings controlled by Local Assemblies where savers participated and voiced their opinion, giving the credit union a "strong popular feeling," according to Ormaechea (1993), one of its founders and a former CEO (p. 50). That sentiment was rooted in the knowledge that the credit union was their own banking institution, and their deposits would be working toward community development that would personally benefit the community members (Mathews, 1999). Indeed,

the concepts of co-operative labour exemplified in the worker co-ops, consumption illustrated in the consumer co-op, and money represented by the credit union, as the way to distribute ownership and wealth more equally to achieve a new social order were embraced by many in Mondragon town (interviewee Pedro Mendieta). Arizmendi's discourse of employment creation, local industry development, and education likely reached community members through the polytechnic school and parish work—all teaching that the co-operatives would lead to, create, and develop the well-being of society. By raising awareness around structural barriers faced by the residents and promoting co-operative enterprise, Arizmendi proposed a way to address those challenges and create a fairer society. However, to this day community depositors cannot be members of the credit union, which raises questions about democracy and participation on an equal basis in a supposedly co-operative organization.

The credit union had to find a way to avoid conflict of interests while engaging consent and identification with the goals of the organization. Although the Caja had a democratic internal structure, community savers as non-members had no voting rights, which differs from Canadian credit unions where an individual opening an account becomes a member with voting rights. Arizmendi, who designed the bylaws, and the founders missed the opportunity to be truly inclusive by allowing every depositor to become a member of the credit union. Letting residents become members could have occasioned a conflict of interest between the savers and the goals of the credit union which involved “taking risks for the co-ops such as reducing interest rates or forgiving loans to co-ops” in trouble (Morrison, 1991, p. 96). Depositors would have made different investment decisions as they may have been more risk averse and less willing to invest in the co-ops. Conflict of interest is inherent to any type of organization, not only co-ops. Having associated co-ops and the workers as members can cause conflict of interest, yet the organization functioned in that way and still exists today. Local assemblies held annually were designed to inform savers of the policies and directions of the institution, giving them the chance to voice their opinions and raise their concerns (Morrison, 1991; Ormaechea, 1993). However weak an attempt by the co-ops to be inclusive, local assemblies helped gather “consent and build the trust of the savers in the credit union, which contributed to popular identification with the organization,” recalls Pedro Mendieta. “There was”, he continues, “a clear consciousness that the credit union was 'laboral' (of labour) in the sense that labour is the cornerstone of society's well-

being, and its 'popular' character stemmed from its community roots, its return to community in social contributions, co-operative employment, and community wealth." Such community support is crucial to co-operative development as community-based collective action. Building trust and consent among the savers to a financial organization that not even the founding co-operatives believed in at first, was crucial in the process of community education and conscientization. If we compare the community participation in the credit union to the participation in other banking institutions, we can see the value of local assemblies to give savers a chance to voice their opinions. However, for a co-operative attempt, it seems patronizing to so impede community memberships and inform residents only once a year without giving them a real ownership stake. Drawing on institutional theory (DiMaggio & Powell, 1991), there is a replication within society of the dominant hierarchical institutions. Under a dictatorship, it may be expected that strong figures such as Arizmendi, and top-down institutions such as the Mondragon co-ops would be replicated.

4.1.2 A centralist and hierarchical vertical integration of the co-operative group: Caja as the hub organization, the contract of association, and the unusual harmonization of profits and losses among the associated co-ops

The Caja Laboral Popular was the answer to several problems enterprises usually face in a capitalist economy. The typical barriers to co-op development widely stressed in the economic literature are undercapitalization and a lack of access to financial markets, which normally restricts co-ops to a marginal role in a world of large corporations (Cornforth & Thomas, 1990; Morrison, 1991; Zamagni & Zamagni, 2010). The Mondragon worker co-operatives deposited their indivisible reserves, the workers' individual capital accounts, and the workers' contribution to the social insurance in the credit union, and in turn, the credit union reinvested their capital in co-operative operations (Morrison, 1991). In this way, the credit union used productively the results of the co-operators' labour and provided capital to the organizations.

As a way to grow the asset base of the co-operatives, and at the same time, build assets for the worker-owners, Father Arizmendi devised the Individualized Capital Accounts (ICAs) in the internal structure of the co-operatives. The ICAs were an attempt to solve the traditional

principal-agent dilemma haunting co-operatives (Fulton & Laycock, 1990) as they try to keep the interest of the individual member aligned with the interest of the organization (Matthews, 1999). New members in any co-op contribute a “threshold payment” equivalent to one year of minimum salary (\$12,000 in 1997) that is deposited in their own personal account, which is adjusted upwards for inflation each year as well as grown by an average interest rate of about 6 percent (Lutz, 1997, p. 5). Of the threshold payment, 15 – 25 percent is a non-refundable contribution to the co-operative’s indivisible reserves. New members who cannot afford the threshold payment up front can pay through a salary deduction plan over a three-year period (Lutz, 1997, p. 5). As well, each year a significant portion of the co-operative’s net surplus is allocated to the ICAs in proportion to the hours worked by each worker-owner. The ICA remains in the co-operative until the member retires or leaves the business. Co-operatives borrow money from the credit union on more affordable terms: “at interest rates 3 to 4 percent below those” of traditional banks (Matthews, 1999, p. 206). Overall, Caja liberated co-operatives from the traditional capital restrictions common to all businesses and even more acutely suffered by industrial companies requiring large investments in machinery and technology.

If co-operatives suffer from lack of access to affordable technical assistance, legal and financial advisory services, and co-operative education more broadly (Adeler, 2009; Cornforth & Thomas, 1990), the credit union was designed to address these needs (Cornforth & Thomas, 1990; Matthews, 1999; Morrison, 1991; Zamagni & Zamagni, 2010). Not only did Arizmendi realize early on that the co-operatives needed to be close to one another to share knowledge, resources, and workers, but he also concluded that without capital and support organizations around, the future would be plagued with difficulties. Caja Laboral Popular was his solution to these challenges haunting co-operative development.

To overcome the twin dangers of isolation and competition, Father Arizmendi purposely devised networks among the co-ops, the credit union, and the school (interviewee Jose Ramon Elortza). Cultural homogeneity in a small town may have helped to develop a sense of cohesion. Socio-cultural factors and community values of solidarity, equality, trust, and a common identity were promoted by Arizmendi, highlighting the benefits of networks among the organizations and the school, and close connections to the broader community. Caja Laboral addressed the common

isolation and consequent vulnerability of small businesses by becoming the hub organization that coordinated resources, labour, capital, provided specialized management advice, and linked co-operatives through the Contract of Association (Matthews, 1999). The co-operatives were vertically integrated under the umbrella of the credit union. However, such integration was centralist leaving the associated co-ops little room for autonomy and decision-making. The co-operatives were free to disaffiliate if they chose, but the benefits of belonging to the group outweighed the downsides of losing some autonomy and independence. As part of the sharing philosophy, "laid out in the contract of association was the commitment of the co-ops to lend their best human resources to manage the credit union. The organization was new and started by a bunch of inexperienced (wanna-be) bankers so it needed all the expertise we could provide to get off the ground" (interviewee Pedro Mendieta).

Following Don Jose Maria's beliefs, the co-operatives were informally linked to each other and shared some resources and expertise which was the prelude to what later would be formal alliances among co-operatives. For instance, the founding members of Caja Laboral Popular were the four existing Mondragon co-operatives—ULGOR, Funcor, Arrasate, and San Jose Consumer Co-op—and its worker-members. Between 1956 and 1959, three more co-operatives followed ULGOR, which were linked together by the needs and the opportunity of new products. Those were Arrasate, a machine tool and tooling company with 40 workers, which supplied parts and tools to ULGOR and Funcor; Funcor, a forge and foundry with 38 workers in the manufacture of agricultural machinery for farmers who would provide goods to be sold at the consumer co-op; and San Jose, a neighbouring consumer co-op with 400 members that would market the products of Funcor (Ormaechea, 1993). The linkages among the co-ops were a key part of the co-operative development strategy Mondragon embarked on. As more co-operatives were strategically spawned, recalled interviewee Pedro Mendieta, "Don Jose Maria was convinced that a business alone would not survive long; harder times would cloud its success and for that reason it was imperative to draw alliances between the co-operatives."

Instead of pursuing the traditional competitive logic of private businesses, Arizmendiarieta thought that it made more economic sense to work together and help one another. As a consequence, local allied groups or clusters of co-operatives were developed with strong links

coordinated by the credit union. The local groups and the credit union were responsible for approving all accounts of the associated co-ops, which made easier the difficult task of sharing profits and losses among the co-ops. A top-down structure facilitated the harmonization of profits and losses, which often creates members' conflicts. Such solidarity would not be easily possible in a more decentralized, flat structure that is common in Anglophone Canada. The worker members went through an education and awareness raising process that made them buy into the project. Also the advantages of belonging to the group may have made more manageable burdens such as harmonization of profits and losses, loss of autonomy, and the individual contributions to the collective. Evidence of this is the fact that co-ops are free to leave the group and they have not. As a community economic development organization, Caja Laboral was devised to assist co-operatives in all the necessities of their lives, from financial to more sophisticated technical needs as well as a co-operative social-insurance system for the worker members. Despite some questionable practices, lessons from Mondragon's particular approach to co-op development include the value of solidarity and trust incarnated in co-operative networks, the importance of working together to help rather than compete with one another, community support, and the creation of a support organization.

Policy is a consequence of the socio-cultural sphere where social practices, values, and beliefs are engraved in the policy realm. For instance, the Contract of Association became official in 1976, and materialized the initial informal relationships among the co-operatives by setting out the rights and responsibilities to the credit union of each associated co-op. For sixteen years until the contract became official, the co-operatives were informally acting along those lines, which speaks to the conviction of the workers, managers, and leaders to behave in a certain way without the need of legally binding documents. However, that conviction was a product of a socialization process within an authoritarian cultural framework where power relationships could seem normal. "After six years of its creation, Caja still showed poor results; the performance of the associated co-ops was far better but Don Jose Maria insisted that we needed to have faith in the institution and so we did" (Pedro Mendieta). "Faith in the institution" was materialized through the continuous investment of the associated co-ops in the credit union, although the organization was not solid yet. Again, Arizmendi had considerable power over his disciples to convince them: "The co-operation formulas we applied allowed the institution to survive and by

late 1960s its results started to turn around," as interviewee Pedro Mendieta recalls the roles of solidarity and mutual help in a successful development strategy. Building consensus is one of the features of the co-op model, which might facilitate the normalization of practices and policies without legal instruments. The actions of the member co-operatives guided by their values and beliefs were then fleshed out in the contract. Policy in this case as in others is embedded in the socio-cultural realm; the practices of social actors preceded policy which then crystallized those practices, values, and beliefs.

Jose Maria Ormaechea (1993) founder of ULGOR and Caja Laboral, and first CEO of the credit union (1960-1988), explains that, in the contract, co-operatives committed to respect and follow the co-operative principles of open membership, democratic control, sovereignty of labour over capital, wage solidarity, and fixed interest on capital contributions in exchange for financial and technical assistance. They also committed to deal exclusively with Caja, meaning that the co-ops should deposit in it all surplus cash and liquid assets including all holdings on behalf of its members such as pension funds, social security funds, and workers' share capital, and abide by principles on capital remuneration, members' contributions, and distribution of profits. The contract also stated that profits and losses were to be distributed according to this formula: 20 percent to be retained by the co-op for indivisible reserves and reinvestment; 10 percent or more to be contributed to the education and promotion fund or social fund; and the remaining 70 percent or less to be distributed to co-op members, but remaining with the co-op in the individualized capital accounts deposited in the Caja until the worker-owner left the enterprise (Ormaechea, 1993). The fact that Arizmendi devised this contract of association with a democratic balance of power, and sharing of the profits and losses among the associated co-ops, once more shows the contradiction lived in Spanish society. On the one hand, Arizmendi is a strong figure with a considerable amount of power to impose his views on his disciples; on the other hand, he has the insight to devise values and principles embedded in democratic structures.

This contract crystallized the principles of equality and solidarity, as well as mutual help in establishing the credit union's responsibility to oversee and support the financial health of member co-operatives and the principle of member co-operatives aiding any member in financial trouble. It ensured the long-term financial health of the co-operatives by way of audits at least

once every four years by the Business Division with the technical expertise to address possible financial issues looming in a co-operative. Such a collective way of addressing financial problems in a co-operative and the distribution of profits underlines, in the Mondragon case, a logic and set of values (distinct from traditional IOF ones) governing choices for collective benefit and co-op development. The sustainability of the credit union during the first eight to ten years required strong commitment and loyalty from the founder co-operatives willing to take on sacrifices and risks to achieve the consolidation of the organization.

4.1.3 Caja Laboral Popular Co-operative Development Policy

Don Jose Maria devised an organization with the mandate, resources, and technical expertise to sustain co-operative employment. To this end, the credit union had three departments performing equally important and related functions: the Banking Division, the Entrepreneurial or Business Division, and the Social Security Division. The Banking Division fulfilled the vital function of providing capital to the associated co-ops through affordable loans. The Business Division employed about 120 worker-members (Mathews, 1999) and had the mandate to develop new co-operatives and expand existing ones, providing professional advisory services for co-operatives in all phases of development. The Social Security Division was designed to provide workers with social insurance such as workers' pension, sick leave, widower's insurance, and workers' accident compensation.

Once a new product or service and a market for it were identified, a group of workers and a manager pursuing a new business would approach the Business Division which would study the proposal and assign to the group an advisor or “godfather” on behalf of the Business Division if the proposal was found viable (Mathews, 1999, p. 207). Then the workers would incorporate the enterprise as a co-op and accept a loan to cover the manager’s salary for about eighteen months to two years while the Business Division conducted feasibility studies. In that period a product might be replaced by another or a new product developed according to the results of the studies. Once the product was refined, the Business Division would focus on the necessary steps of the development phase: “factory design, production processes, marketing strategies and export opportunities” (Mathews, 1999, p. 207).

If the Banking Division approved the project, the Business Division's "godfather" would work closely and in innovative ways with the manager of the new co-op until the business broke even and the co-op was deemed capable of standing on its own (Mathews, 1999, p. 207). The co-op committed to provide monthly financial reports to the Business Division, information that was stored in an "electronic data bank" (considered an innovation in the 60s and 70s) (Mathews, 1999, p. 208). Usually, loans were planned to be paid back in seven years bearing "no interest in the first two years, 8 percent interest for years three and four, and 14 to 15 percent interest in the last three years" (Morrison, 1991, p. 125). This repayment model is as innovative as it is highly lenient for the new business and stems from the credit union commitment to co-op development. The close ties among the co-ops and the credit union made possible this rarity in traditional business lending. The credit union's criteria for approving a new business—1) availability of a suitable manager; 2) an investment per job not exceeding \$100,000 (because a higher cost would not be possible to absorb in case of failure); 3) a financial break-even point by the fourth year (beyond which the venture would be changed or rejected) (MacLeod, 1997, p. 47)—reflect the careful and thoughtful planning to ensure the maximum success of a new venture.

One example provided by MacLeod (1997) can illustrate the co-op development process. A market opportunity arose in the field of forklifts. After a feasibility study and the purchase of the manufacturing license from Mitsubishi, a new co-op, Oinakar, was incorporated and a godfather appointed for two years on behalf of the Business Division. The co-op started assembling components purchased from Mitsubishi with plans of manufacturing the complete product. The cost of product development was \$60,000, the Basque government provided 40 percent (\$24,000), and the remaining \$36,000 was financed with a long-term loan from the credit union. However, \$2.3 million was necessary to launch the full operation. The thirty-five worker owners contributed \$9,000 each totaling \$315,000 in member capital, the credit union provided a \$1.5 million loan, and the Basque government half a million (p. 47). The co-operative was created in 1984, and still exists today as part of ULMA Group, formed by three co-ops, Oinakar, Enara and Ulma, under the Mondragon Co-op Corporation umbrella.

It is important to note that during the years of the dictatorship, central and local government did not contribute any funding to the development of the Mondragon enterprises. The co-ops developed initially through their own means such as member contributions, community fundraising, and credit union financing. Since the democratic reorganization of the country in 1978, government has contributed to co-op development not only with funding for job creation and research projects but also with supportive policy.

This development strategy to finance community-based businesses is highly important for community economic development projects (MacLeod, 1997). Often, founders of small businesses face innumerable challenges initially, the three most important being the technical/professional assistance, affordable financing, and a supportive policy environment to nurture the business venture. The Mondragon Group tackled all three.

It is important to highlight the meticulous procedure and strategy of the credit union to assess the financial situation of a co-operative and establish a rescue plan for it, if deemed necessary. When an established co-op was in difficulty, the Business Division of the credit union set in motion a mechanism to rescue it depending on the depth of the problems. An intervener would be appointed to assess the situation based on three categories of risk. Mathews (1999) describes it as follows: 1. "High risk" is the case in which the health of the co-op is in high danger and the credit union assigns an intervener, who takes over the management temporarily until a rescue plan is set or the co-op must close its doors. The credit union suspends interest payments on loans until the co-op is in a better situation. 2. "Medium risk" indicates that bankruptcy might be a possibility. The intervener does not take over the management but spends at least one day a week at the co-op. The credit union receives only half of the interest payments. 3. "Warning or alert level" means the co-op needs professional assistance to address a problem that cannot be solved on its own, for which no rescue plan but remedial action is needed. Interest payments are not suspended because the remedial strategy will make the burden manageable (p. 208).

Once the risk was assessed and the reorganization plan was in place, members might have to take reductions in their wages and/or contribute additional capital. In the extreme case of having to reduce the work force, the Social Council together with the management had the task to identify those members staying in their positions, those who had to move to new positions, and those who

had to be transferred to another co-operative requiring more labour (Mathews, 1999). The co-operative then had to seek approval of the new plan from the Banking Division of the Caja. No more than a handful of the more than one hundred co-operatives have gone out of business, and “45 percent” of the existing co-operatives have been “created by the Business Division of CLP” (Ormaechea, 1993, p. 101). In terms of the enterprise model, Jesus Goienetxe points out, “Stability is one of the rules on which the co-operative type of enterprise rests; ventures involving high risk and high benefits did not fit with the type of business we wanted. Following ‘adventures’ was not our business style because we wanted employment for our children and grandchildren,” which explains the careful planning of every co-op.

In this respect, interviewee Jesus Goienetxe, noted that “Mondragon’s philosophy of co-operative employment creation has been the pillar of the organization since its inception. Mondragon had to find a delicate balance between incorporating new technology that would likely replace labour, and maintaining their commitment to job creation which required devising creative and innovative strategies. We did not want just to benefit the existing members because we were not committed to enrich a few of them; we were committed to the wealth of our society.” Pursuing such balance between economic and social goals and not only bottom line considerations led to high creativity and innovation.

Staying true to co-op values, dismissal of workers is the last recourse in case of economic problems. Labour is considered a “relatively fixed cost,” not variable as understood by the traditional economics theory, which would encourage dismissing workers as the first strategy to avoid losses (Morrison, 1991, p. 118). Such a notion demands careful planning of the business, high screening filters, conservative feasibility studies, and realistic assessment of risks to minimize potential failure, all important components of an effective co-operative development process. It is not surprising that the co-op failure rate is so low (five co-ops have gone out of business among the over one hundred co-ops of the Mondragon group) compared to the fatality rate of investor owned firms (Ormaechea, 1993). This result is consistent with a research study in Quebec finding 62 per cent of new co-ops still operating after five years, compared with 35 per cent for other new businesses; those figures are 44 per cent and 20 per cent respectively after 10 years (CCA, 2008).

The internal tensions co-ops go through are not always resolved along co-op principles. A concern in the Mondragon co-ops is gender equality. The main activity of the co-ops, industrial manufacturing, has traditionally been and still is a male-dominated sector. Another factor in the issues around gender equality is the fact that Spanish culture is paternalist and patriarchal, especially until the 1980s when Spain entered the common European market and the modernization of the country led to more women in the workforce. Although Arizmendi thought that women did not have a place in the co-ops, he changed that view later on and promoted a co-op for married women in 1969 that still exists today, Auzo Lagun (del Arco, 1983). It reduced working hours and flexibility in the working schedule to be compatible with family life (Arco, 1983). Ironically, the activities of the co-op seem to fit criticisms on gender issues as it provides food services to schools, businesses, and hospitals, as well as commercial and industrial cleaning services. The strike of 1974 led to workers, all of whom were women, being "fired" in an effort to achieve efficiency (Williams, 2007, p. 116). The Catholic Diocese of Vitoria severely criticized Mondragon, ULMA and two other co-ops left the group temporarily in protest, and the fired women were restored to their original jobs by the Management Council (Williams, 2007). Women are still a minority in managerial positions. Although the group has made efforts to address the concerns (for instance, the 2011 MCC annual report revealed a 43.6 percent of women in the workforce), gender equality in the co-ops still remains an issue and is partially a reflection of Spanish culture.

As an initial co-op development strategy, Don Jose Maria divided co-operatives to multiply their numbers, each department in a co-op turned into a new co-operative. This creativity and innovation was driven by the desire to preserve employment following the Mondragon principle of sovereignty of labour over capital. As each business grew, it divided and sub-divided, the connections among them creating complex inter-related companies still thriving today (MacLeod, 1997). Jose Maria Ormaechea described this process in ULGOR, the first co-operative: "We made three divisions, the electrodomeestic division, the electronics division and the foundry. ULGOR (now called Fagor) is the former electrodomeestics division; Fagor Electronica is the electronics division and Ederlan is the foundry. As co-operatives grew in numbers, we continued to divide them" (as cited in Clamp, 2003, p. 11). According to

interviewee Jesus Goienetxe, “the internal divisions responded to economic and social needs because it was easier to transfer workers from one co-operative in hard times to a successful co-operative rather than leaving the labour force without work. In that sense, the local group was devised by Don Jose Maria so co-operatives could protect themselves and their work force.” Solidarity is at the centre of the strategy enabling vulnerable co-ops to weather an economic downturn but, ironically, such values had to be taught to the co-ops initially until they became normalized behaviour incorporated to the co-ops.

As these examples illustrate, co-operative development goes beyond just applying the procedures and screening filters of carefully designed feasibility studies. Institutionalizing co-operative development through an entrepreneurial and financial organization such as the credit union nurtures community bonding and collective social responsibility through a community-based enterprise designed to “pursue the social transformation Don Jose Maria enticed us to bring about,” according to interviewee Jesus Goienetxe. That major goal was realized through co-operative employment, the reforming of the private enterprise as a more humane organization. Even if Arizmendi was a leader, who behaved at times undemocratically, he viewed co-operatives as instruments to achieve higher objectives of social change as they would address socio-economic structural barriers. He believed in the capacity of working people to provide for themselves through co-operation and economic solidarity: “Man is not born in a set way, but he can be made into it,” according to Jesus Goienetxe, recalling Arizmendi’s belief not in determinisms but in the possibility of human development by way of education to achieve social transformation using the co-operative model.

After half a century, the Mondragon co-operatives continue to reinvent themselves in the face of legislative and regulatory change. For decades, the credit union provided financial and technical assistance for new and existing co-operatives, acted as the coordinating head and hub of the co-operatives, and provided social security services for worker members. However, in the 1980s the National Bank of Spain brought in new regulations regarding securities and risks that prevented the continued provision of the training and technical assistance functions and demanded a better diversification of the lending risk, which forced co-ops to seek elsewhere at least 30 percent of their external financing (Lutz, 1997; Matthews, 1999). This requirement represented a change in

the original contract of association that required all the financing activity of the co-ops to be done with the credit union (Ormaechea, 1993). Yet this move also liberated Caja to act as a traditional credit union institution, moving its investment growth away from the co-ops and pursuing other market opportunities (Matthews, 1999). Along with the National Bank of Spain regulations, new legislative changes freed credit unions from local boundaries allowing them to operate in more than one region, which led Caja to open up branches in several other regions (Ormaechea, 1993). The expansion creates risks about losing the grassroots nature of the organization, but the fact that only the associated co-ops and the credit union workers are members remained the same. The credit union still does not allow community depositors to become members. Caja continues to be under the umbrella of the Mondragon Group and is a main source of financing for their overall activities (interviewee Pedro Mendieta).

The changes in the credit union precipitated the already in-the-works creation of a second-tier co-op structure, Mondragon Co-op Corporation, to assist in the creation of new co-op enterprises and the overall coordinating and forward strategic planning, functions previously performed by Caja. The Business Division disappeared by the end of 1990 because the co-ops hived off its functions to create other co-operatives and centres which assumed the tasks of technical and managerial assistance to new and existing co-ops (Matthews, 1999). The most notable of them is LKS Consulting Group, with a staff of over a thousand workers and annual revenues of 70 million euros, which is made up of some Mondragon co-operatives and private companies and provides technical assistance in all areas of need for co-operatives and other types of business (LKS, 2012). While the creation of such a large organization has allowed for more human resources dedicated to advisory services for co-ops, it also takes away resources for co-operative consulting since LKS also advises private companies. By creating LKS, the co-ops continue to invest in technical assistance crucial for co-operative development. Areas of activity include management consultancy, technology, architecture and engineering, real estate, design and innovation, and legal expertise. The capacity of the co-operatives to reinvent themselves is reflected in changes requiring careful planning, strategic thinking, and consensus building. Adapting to new external and internal conditions, the Mondragon co-ops show dynamism, confirming Arizmendi's own words: "the sign of vitality is not to endure, but to be reborn and to adapt" (Ormaechea, 1993, p. 39). Ironically, the Mondragon group preserved a centralist, and

top-down structure after democratic changes in Spain (1978) and after Arizmendi's death in 1976.

The intensive development plan finds its roots in co-operative values and principles which serve as pillars of the system's strength. Mondragon co-ops are crafted mindfully, including assertive reinvestment in established co-ops needing reanimation (Morrison, 1991). Each one of the co-ops is a dynamic and complex human system underpinned by human values (MacLeod, 1997).

When asked what the main challenge was that the Mondragon co-ops had experienced, interviewee Jesus Goienetxe answered, "Responding to changes in a dynamic way since a leader or few members may foresee the need for change, but the majority of the worker-members may resist the change or not see the need for it." He pointed out that "a co-operative as a democratic organization permits us to solve this challenge by building consensus, listening to all the voices, and learning from one another." Although not easily done in practice considering the authoritarian culture within which Mondragon developed, democratic mechanisms were formally crafted in the institutional design. The consensus building and inclusive listening Goienetxe points to was actually a slow and gradual learning process. Still there are some traces of authoritarian and centralist power relationships in the Mondragon group.

4.2 Mondragon Co-operative Group's Development Strategy: The top-down, solidarity framework

The initial focus of the development strategy was to "work together to protect each other," as interviewee Jose Ramon Elortza, former professor of the Polytechnical College, explains. "The motto," he continues, "was to co-operate with one another under the framework of solidarity" because Don Jose Maria understood that businesses operating alone and isolated would be easy prey in difficult times to larger corporations. Being a co-operative, in his opinion, meant to co-operate with other co-operatives in solidarity following the 6th ICA co-op principle, co-operation among co-ops. For that reason, Arizmendi crafted the idea of the "local or regional group" with unions of co-operatives located in the same village or region operating in similar fields of economic activity, according to Jose Ramon Elortza. In the early years, there were twelve

regional groups of co-operatives (Mathews, 1999). Despite the benefits of "working together to protect each other," tensions arise as co-operatives lose some of their independence and autonomy that they have surrendered in certain respects. In theory, working together as a group meant having to share profits and losses, which sounds idealistic, but in the practice, it is very difficult to achieve as conflict and tensions arise. However, the co-ops had to weigh the pros and cons of such policies. The benefits of being part of the group seemed to outweigh the burdens of sharing profits and losses.

The idea of the group developed out of the rapid growth of the first industrial co-operative, ULGOR. Interviewee Pedro Mendieta explains that the policy of hiving off departments of the co-op was Arizmendi's strategy to address the risk of bureaucratization and lack of dynamism that can make larger co-ops slower to respond to economic or technological changes. The most efficient division within ULGOR, consequently, split off to start a new independent entity. In this way, the home appliances manufactured by the new co-operative had an already built market and could supply the parent co-op. This was also a strategic policy to strengthen the social bonds among the members of both co-ops, who already knew one another, and made the consequent networks among co-ops an easier step. Their existing relationship and homogeneity of the culture may have helped mitigate member conflicts.

The first co-operative group, ULARCO, was created to assume tasks and responsibilities delegated by the co-operatives so that individual entities would not have to spend resources duplicating costly internal administrative and marketing functions (Mathews, 1999). ULARCO, as we have seen, was made up of ULGOR, Arrasate Co-op, Copreci Co-op, Ederlan, , and Fagor Electronica, which was the first spin-off by the three founder co-ops and specialized in manufacturing electronic components (Mathews, 1999, p. 214). The structure of ULARCO was similar to the internal structure of individual co-ops. Its General Assembly included members of the Governing Councils or Board of Directors, the Management Councils, and the Audit Committees of the individual co-ops. The General Assembly would elect the members of the Governing Council or Board of Directors, and this body would appoint the General Management Committee. The Social Council included members of the Social Councils of the associated individual co-ops (Mathews, 1999). By delegating administrative and marketing tasks to the

group, the co-ops divided the labour more efficiently and avoided, to some extent, bureaucratization which would allow them to respond to changes more easily. The group also made simpler the transfer of workers from one co-op experiencing difficulties to another in expansion.

Working under the strategic direction of a group meant that individual co-ops would have to surrender some of their autonomy, which must have caused some internal conflicts. However, in the cultural framework of the Spain of that time, it actually made sense to have a strong entity coordinating strategy since it reproduced the hierarchical, top-down structure of the major institutions of society. To some extent, the group reflected the strong leader, who guided co-op development for the first 16 years. However, democracy and worker ownership of the means of production were real. On the one hand, the cultural habits of following a powerful, charismatic leader, and on the other hand, the desire for democracy, autonomy, and equality are contradicting features of the Spanish culture reflected in the Mondragon institutions.

The groups were responsible for strategic planning, coordinating functions, policy setting for the individual co-ops, and approval of all accounts. The profits and the losses were harmonized which added protection to the co-ops from the market fluctuations and eventual economic downturns. The harmonization of profits and losses may be better understood in the light of cultural studies and institutional theory as Spanish culture seemed to be more comfortable with a collective property framework than Anglophone Canada. For instance, the notion of the indivisible reserves, and the co-op education and promotion fund, both of which are not reimbursed to members in case of dissolution of the co-op but are assigned to co-op federations to promote co-op development, might not be culturally accepted in Anglophone Canada. Key informant Jose Ramon Elortza explains, “for example, if a co-operative experienced a deficit due to market demand changes in one field of activity, that loss would be compensated with the profits other co-operatives in a better situation were enjoying. Our goal was to protect one another achieving together what one isolated co-operative would not be able to, and also allowing us to achieve economies of scale.” Sharing profits and losses was possible because the group decided on unification of budgets and approval of all accounts as well as the transfer of workers: “Pooling resources and losses together not only allowed us to grow together without

losing jobs but also made economic sense,” he concluded. Although sharing the profits and bearing the losses with one another might be against the logic of conventional economic theory, this collective socio-economic approach rooted in co-op principles and values proved to be an economic advantage. This policy tells us that the 6th co-op principle, co-operation among co-ops, was in this case a strategic advantage. We need to remember that Mondragon employs close to 90,000 worker-owners which speaks to its solidity (MCC annual report, 2011). Although the logic of pooling resources is common to co-operatives all over the world, sharing losses and profits among different organizations required a strong commitment not easily done in practice. Since the group unified budgets and approved accounts of the different co-ops, it may have been more manageable to share profits and losses despite the difficulty of doing so in the practice. Conflicts among the members and the co-ops and internal tensions may be a natural consequence.

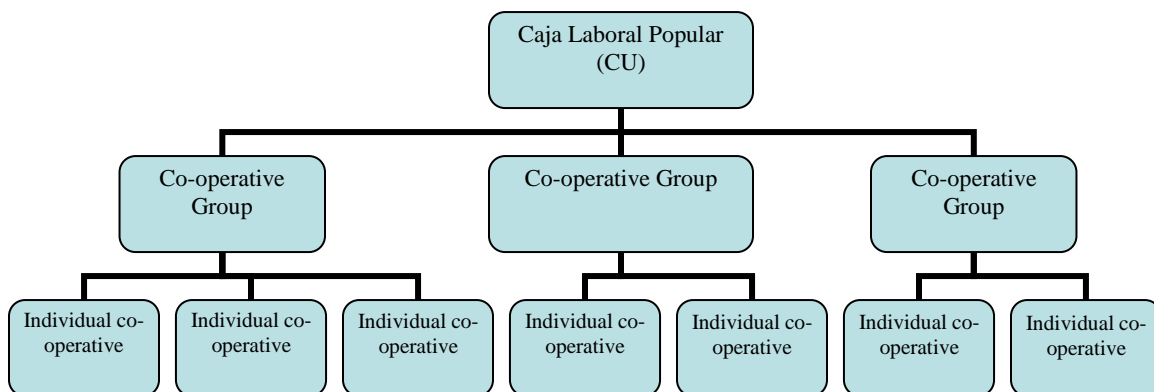
The co-operative development strategy of the group was complemented by the internal modernization of the enterprises, education of the workforce, and access to finance. MacLeod (1997) describes the typical internal development strategy using the industrial co-operatives as examples. Three key components are looked after: technology, formation (education and training), and finance. As seen previously, the Mondragon co-ops pursue actively cutting-edge technology, which is the task of the research and innovation centres. Formation includes education and training for the workforce through educational institutions such as the university and Saiolan, and special on-the-job training from courses on marketing for managers to weekend retreats for board members on finances and balance sheets. Finance is guaranteed through the credit union providing the necessary access to capital for expansion of the co-ops. The three elements, technology, formation and finance, are in constant synergy interplaying dynamically to achieve what each alone could not in a co-op development strategy.

Interviewees Jose Ramon Elortza and Pedro Mendieta recall the frequent meetings of the workers with Don Jose Maria and the capacity building: "we would discuss business strategies for hours and he would just listen without saying a word until the end of the meeting when he would speak his opinion and we would get upset and ask why he let us ramble and waste time rather than speaking in the beginning of the meeting and tell us what to do but he would say that

we would not learn anything if we were just told what to do." This comment actually gives an accurate picture of the contradiction of the culture. Unknowingly the disciples were expecting directions from their leader, yet they also wanted to have a democratic and equalitarian enterprise. Although Arizmendi, as we have seen, could circumvent democratic participation, he could also be exemplary in encouraging his disciples to learn for themselves. The learning process and capacity building of the workers was a function of the emphasis on education, a key factor in the development of the organizations. In other words, Mondragon was an innovative learning organization long before the mainstream came up with the term (Senge, 1990).

During the first three decades (1960-1990) the groups were bounded geographically and by sectors of activities with some responsibilities in decision-making but the overall strategic planning and coordination of the groups of co-operatives was in the hands of the credit union, which had ultimate responsibility for all the groups and their individual co-operatives until 1991 (see Figure 4.1 below).

Figure 4.1 Organizational Structure of Mondragon (until 1991)

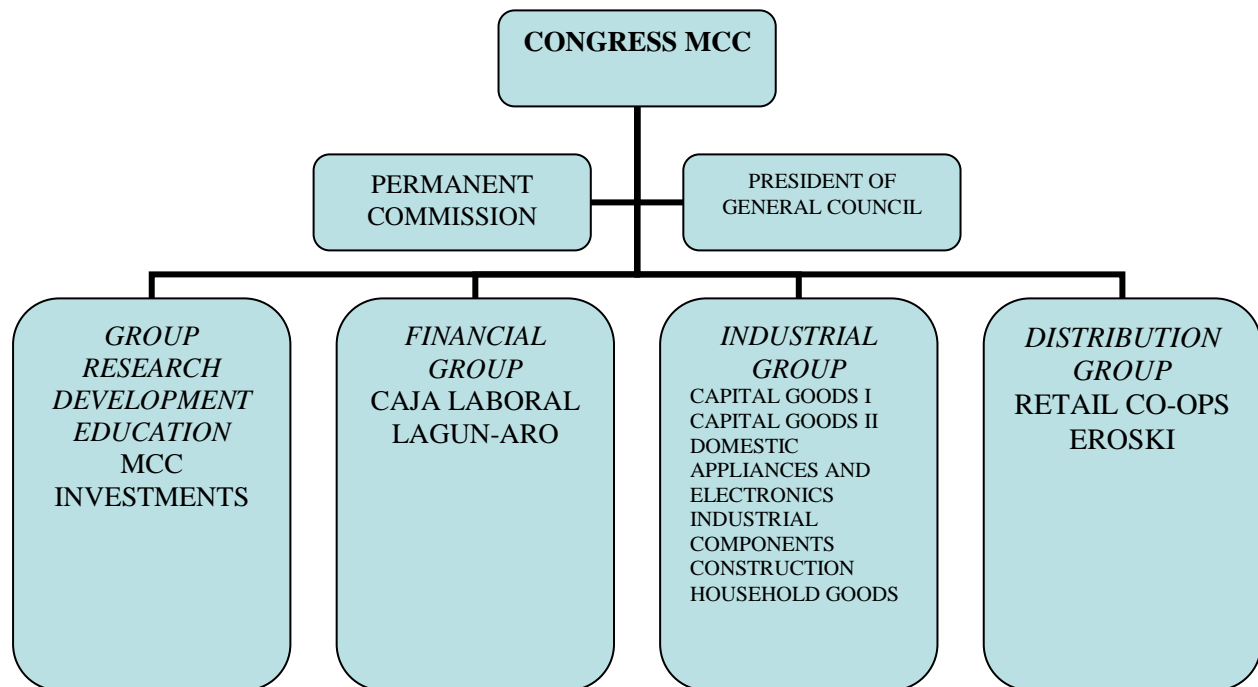


In 1991, the co-ops introduced major structural changes for the co-op groups since new legislation forced the credit union to diversify risk rather than continue to be the exclusive source of financial services to the co-ops. The result was that a Congress of the co-ops created a super

structure, Mondragon Corporacion Cooperativa (MCC), a function also of the co-ops' decision to internationalize their activities (see Figure 4.2). This super entity replaced Caja Laboral in its overall strategic planning responsibilities as the head and driving force of the co-operative groups. The credit union became a "conventional co-operative financial intermediary" and its Business Division split up to create a different co-operative, LKS Consulting, that assumed some of its functions, and other tasks were taken by some departments of MCC, and Saiolan, as we have seen previously (Mathews, 1999, p. 218). Now MCC performs the activities of strategic planning, coordination, and internationalization for the whole conglomerate. Mondragon also established a unique governance structure in keeping with their commitment to democratic principles through the creation of the Co-operative Congress, made up of 650 delegates representing member co-ops, where binding decisions for MCC are made (MCC, 2008).

It was then required that individual co-ops become members of one of the four sectoral groups: the Finance Group, the Distribution Group, the Industrial Group, and the Research, Development and Education Group. The industrial group was again subdivided in Capital Goods I, Capital Goods II, Automotive Components, Domestic Appliances and Electronic Components, Industrial Components and Services, Construction, and Household Goods due to the complexity of its activities (MacLeod, 1997). The first co-operative group, ULARCO, bounded co-operatives geographically and by sector of activity, while MCC requires co-ops to be in groups and subgroups according to their activity and not by geography. The co-operatives have grown and expanded very much since the first group, ULARCO, was created, and thus the need to have different groups and subgroups of activity to better co-ordinate the synergies of the group. However, this move has created the risk of losing closeness among the membership from different subgroups (MacLeod & Reed, 2009). Until 1991 the groups were created on a close proximity around a small village, which made easier to share jobs and services among the co-ops in a spirit of solidarity as workers knew each other. The lack of geographic closeness within a group may erode personal relationships and the social bonds that make agreements flow more naturally (MacLeod & Reed, 2009). See Figure 4.2 below.

Figure 4.2 Organizational Structure of Mondragon (since 1991)



Source: “Organizational structure” adapted from MacLeod (1997, p. 33).

Interviewee Professor Fred Freundlich at the Mondragon University points out that MCC has created an “inverted conglomerate” having MCC at the base of it, then the co-op groups in the middle of the conglomerate, and the individual co-ops on top. Co-operatives retain their legal status as independent businesses, and are free to disaffiliate if they so choose (Mathews, 1999). Centralizing operational control at MCC is not the goal of the new super structure; rather the change has responded to a need of the co-operatives to be supported more effectively by the group (Mathews, 1999). The strategic planning and coordination functions could not be performed effectively by the credit union any longer due to the size and complexity of the Mondragon group. Nor could it be performed by individual co-ops. And the legal changes introduced by the National Bank of Spain put pressure on the credit union to act more as a traditional credit union. Fred Freundlich pointed out that “it made sense to hive off the strategic

planning, co-ordination, and internationalization functions because the group had increased its size and complexity and the new head of the group could support the co-ops more efficiently." Nevertheless, Mondragon has a tradition of centralizing decision-making and top-down approaches, which raises concerns about perpetuating styles observed from its inception.

However, one of the problems of creating such super structure is the risk of bureaucratization and loss of member control. In fact, the group is not without critics. Interviewees, Jesus Maria Herrasti, CEO of the Garaia Innovation Pole, and Jose Ramon Elortza point out that there is some disappointment and discontent at the bottom level in some co-ops. Shop floor worker members claim that the power is being held at the top and that "those below" cannot make proper informed decisions when the "ones above" do not share all the financial information necessary. Nor do they encourage lower level members to pursue financial literacy. This situation fuels a feeling of powerlessness among shop floor members in some co-ops—and in turn a drop in democratic participation. However, those concerned members still prefer to work in a co-operative when confronted with the alternative of a private business. This unhappiness expressed in some co-ops may lead to a crisis of grassroots participation, very important for healthy co-operatives, which suggests that the principal-agent dilemma has not been fully addressed.

4.2.1 Internationalization strategy of private sector response to globalization as a means to save the co-ops

The internationalization of Mondragon sparked criticisms in terms of job creation at home as well as the application of capitalist business practices abroad that contradict co-op principles (Matthews, 1999; Reed, 2009). It was thought that opening up subsidiaries in other countries would threaten employment in the Basque region. However, interviewee Jesus Goienetxe points out that "initially some feared that opening plants overseas would result in lost opportunities for job creation at home, but curiously the co-ops in the group that have pursued internationalization have created more jobs here than their domestic counterparts, with growth rates close to double the average." That seems to suggest that, on the one hand, the positive results of the plants overseas helped the mother co-op at home with profits to expand and create more jobs locally, and, on the other hand, it also speaks to the choices of the mother co-ops in using those profits.

The Mondragon group has been able to retain jobs in the Basque region using an internationalization strategy (Clamp, 2000); however, Mondragon is not committed to employment creation abroad. In fact, when foreign production can be moved to the Basque region, they will do so, leaving foreign workers displaced in overseas plants (Clamp, 2000). Partnering in joint ventures with for profit-companies or state-owned firms (especially in China) and not with other co-operatives when operating abroad has generated criticism related to the application of co-op principles (Reed, 2009). The fact that Mondragon did not set up their own co-operatives abroad to create employment overseas, and chose to apply capitalist business practices seems to be against the co-op principles of member ownership and participation (Reed, 2009).

The internationalization of Mondragon does not follow, however, the traditional internationalization strategies multinationals apply. The plants set up abroad do not subscribe to the practice of taking advantage of cheap labour and looser labour laws to produce the same products at a lower cost for the home country, leading to factory closures and jobs' losses. Instead, the products manufactured abroad are distributed locally or in neighbouring countries to make a profit that MCC uses at home (MacLeod & Reed, 2009; Reed, 2009). If those products manufactured abroad were sold at home, it would kill the industrial co-ops in the Basque region, defeating Mondragon employment creation goals. On the one hand, "multi-localization" is a very innovative approach to address competitive pressures of globalization; on the other hand, the approach strays from co-operative principles (Reed, 2009, p. 34). Interviewee Mikel Lezamiz pointed out, "We are aware of the implications of this capitalistic move for co-op principles, and we are not happy about it, but we had to respond to competition in a rapid manner to avoid missing the train. Starting co-operatives abroad takes a long time and considerable investment. We have a plan to start educating workers abroad on the co-operative model and eventually to turn the foreign plants into co-ops but it requires a significant amount of money that we can't afford right now." This comment highlights the choices made by the Mondragon group not to apply co-operative principles with the excuse of competition. The fact that Mondragon has been benefiting from those profits for two decades makes the plan to turn the plants overseas into co-ops less likely. A co-operative group that has branded co-operative principles into management

practices should not have strayed from them. It remains to be seen when and how Mondragon addresses these concerns.

4.3 Mondragon Co-operative Support Organizations

As explained above, the credit union was the heart of the development strategy of the Mondragon co-ops for decades. Following Arizmendiarieta's vision, the Mondragon co-operatives created their own support organizations to assist them in all the necessities of their lives as needs and opportunities arose (MCC, 2008). One of the reasons to do so was the relative hostility of the dictatorial government in the initial years to co-ops self-organizing beyond its paternalistic arm. They challenged the odds against them by developing successfully the local economy without any external help during the severe economic depression of the post civil war years. The Mondragon co-ops could not count on a friendly government to provide them with the supportive policies, legislation, and programs necessary to encourage their development. At most, thanks to the relationships Don Jose Maria was able to build among some government officials in Madrid, the government turned a blind eye to the development of the Mondragon co-ops. Instead of forbidding them, it merely assisted in authorizing the incorporation of an industrial worker co-op, ULGOR, filling up a legal void at the time. Although it is true that without the authorization of the public administration, the Mondragon co-ops would never have existed in the form of co-ops, a mere authorization to exist is not a supportive environment for co-operative development but rather a "neutral" policy (Hoyt, 1989, p. 89). Most of the countries in the world have co-operative legislation allowing these organizations to exist, but that does not mean that permission to exist is active government support to favour the development of co-ops or "supportive" policy (Hoyt, 1989, p. 89). This fact confirms that government authorization to incorporate is vital, but support and assistance are not absolutely necessary elements to develop co-operatives successfully. Living in an "occupied region" (as Arizmendi put it) by a controlling enemy that suppressed their Basque identity, pride, and culture, the co-operators opted for the route of self-help and economic solidarity by creating, first, the Mondragon co-ops, and, second, their own support organizations (Whyte & Whyte, 1991, p. 242). Following institutional theory with cultural lenses, organizations are a reflection of the culture where they are embedded. Although the Mondragon co-operatives reproduced unknowingly the dominant power structures

they complained about, the institutional designs by their leader, Arizmendi, challenged economic and political domination of the status quo by incorporating worker ownership and a democratic system. Despite this contradiction, the Mondragon co-operatives learned through Arizmendi's teachings to challenge structural barriers to lessen the burden of repression.

In addition to the Caja and its divisions, support entities included:

- Mondragon University and vocational training centres for training qualified staff
- Lagun Aro, a social security co-operative to insure workers
- Ikerlan, a research and development centre for new products, productions processes, energy efficiency, and renewable energy
- Saiolan, a business incubator centre to support co-op start-ups, sector diversity through innovation, and innovative production processes
- Garaia, a research and development centre in sectors such as energy, construction technology, business management, micro-electronics, telecommunications, and nanotechnology (MCC, 2008). (See in Appendix 5 the details of these Mondragon Co-operative Support Organizations)

These support organizations in addition to the credit union were crucial in achieving the decades of successful co-operative development. Besides flexible access to capital provided by the credit union, education, research and business development play an important role in supporting growth of co-operative enterprises.

It is important to note that despite the informal hierarchical structure with the strong leadership at the top, Arizmendi did craft co-ops in an unusual way considering the Spanish culture of that time. Worker ownership and democratic structure in the co-ops was a novelty. We have to concede that he wanted to change the status quo by creating new types of organizations aligned with his ideals and values. That is why despite the fact that the organizations informally reproduced some authoritarian tendencies of dominant institutions, Arizmendi was so conscious to build leadership among the members. As Mondragon started, an educational process was well underway to the point that when the leader died in 1976, the co-ops did not collapse. The educational process started with community development projects and educational institutions as

soon as he arrived in Mondragon in 1941. One of the interviewees noted that even though the workers insisted many times that Don Jose Maria take a formal position as CEO in the co-ops, he always refused alleging that the workers needed to own the projects (Jose Ramon Elortza). He remained formally outside the co-ops as the brains of the organizations until the workers' leadership and management skills were fully developed. That is precisely a common problem many co-operatives suffer that follow a leader without any regard for building the leadership and succession planning in the membership. In the absence of the leader, the co-op collapses.

4.4 Spanish and Basque public policies to support co-op development

Besides the strong co-operative development policy Mondragon embraced from the beginning, government at the three levels (federal, regional/provincial, and local) has likewise opted to work together with the co-op sector toward better policy support for co-operatives since the end of the dictatorship. As explained in chapter III, the beginning of the Mondragon co-operative experience in 1956 was not easy because the co-operative law of 1942 did not recognize the worker co-op model, and Franco's regime was not friendly to the co-operative movement for ideological reasons. Arizmendi's search for legal solutions led him to meet with government officials responsible for co-operatives, and befriend some of them, which aided in crafting worker co-op bylaws despite the legal vacuum. In this way, the officials legitimated the new legal figure allowing the incorporation of the worker co-op, ULGOR, in 1959, and also turned a blind eye to internal democratic practices once they realized that the co-operators were not a political threat to the regime (Aymerich Cruells, 2008). Although the existing co-operative legislation under Franco was "destructive" in Hoyt's (1989) framework, the fact that government officials identified a fissure in the law to authorize the worker co-op means that it was a "neutral" policy (p. 89). As an institutional entrepreneur, Arizmendi worked from the inside of the institutional framework to change it as he wanted and precipitated legal, institutional, and social innovation. Interviewee Zorione Aregi, head of the Legal Department of MCC, explains that the positive socio-economic results of the co-operatives were an important incentive for government at all levels to be open to work together with the co-op sector. The co-operatives had to demonstrate their value and make change first before government crafted more favourable co-op public policy and legislation after the Spanish Constitution of 1978. This suggests that the motivation of social actors to pursue change is a primary condition for co-operative

development, and neutral policy and legislation a secondary component of the development spectrum that comes as a consequence of the visions and pressure of social actors .

After Franco's death in 1975, Spain reorganized its political system from a centralist dictatorial regime to a parliamentary constitutional monarchy, a type of state respectful of the regions' rights to elect regional and local governments. Under the dictatorship, regions did not have the authority and autonomy to elect their own representatives and legislatures and only federal laws applied to the whole country. Executive, legislative, and judicial powers were in the hands of the central Spanish government. International pressure and the need to modernize the country encouraged Spain to adopt a system more in tune with the times. A parliamentary representative democratic constitutional monarchy was the political system agreed upon following European examples such as Holland, the United Kingdom, Denmark, Sweden, Norway, where a monarch is the head of state, and a democratically elected president or prime minister is the head of government. Consequently, regions became autonomous communities and could elect their own executive government and legislatures.

The first significant policy change for co-operatives was the recognition of the value of such organizations in the Spanish Constitution of 1978. Article 129.2 states: "The public authorities shall effectively promote the various forms of participation in enterprise and facilitate cooperative enterprises by means of appropriate legislation. They shall also establish the means that will facilitate access by the workers to ownership of the means of production." This article is partly in recognition of the role co-operatives played in the reconstruction of the broken economy after the civil war ended in 1939. Key informant Jesus Goienetxe pointed out the influence Mondragon had on the crafting of that constitutional article 129.2: "by the time the constitution was passed, Don Jose Maria's legacy was present thanks to the government relationships he was able to build, and the Mondragon co-ops had shown their ability to provide positive results, so that government could not easily overlook our importance." Public authorities also recognized in this article that workers deserve support to facilitate access to the means of production, which Goienetxe claims to be an achievement partially due to the large worker co-op constituency in the Mondragon movement.

Following Schneider & Ingram (2008), public policy reflects predominant social constructions of certain groups in society, and sometimes it acts as a vehicle for change as in the case of this constitutional norm. It expresses how deserving a certain group, the co-op movement, is of the policy maker's attention to grant it both recognition and the necessary supports. Discourse is shaped by values and perspectives, and values are in turn shaped through the discursive process. Education around the structural barriers facing social actors precipitated a growing awareness that helped reshape the policy field and its discourse to make it more prone to change. Thus, this constitutional article's discourse is influenced by social, economic, political, and cultural processes in Spain from the civil war years up until 1978, and in turn, the legal norm determines those processes for the present and future of the co-operative sector.

The constitutional norm set the ground to build the rest of the legislation and policies to regulate all aspects of co-operatives' lives. Federal, regional, and local legislation and policies followed after the constitution was passed. The Law 27/1999 on Co-operatives is the general federal act that regulates all aspects of the co-operatives' lives in Spain.

The law establishes the novel figures of the indivisible reserves or reserve fund, and the education and promotion fund of the co-operative: "The mandatory reserve fund intended for consolidation, development and guarantee of the cooperative, is indivisible between members" (art. 55). Only the positive results of the co-operative can be assigned to the indivisible reserves. Article 58 explains that a minimum of 20 percent of the profits of the co-operative must be assigned to the indivisible reserves if the profits are a result of business with its own members; the co-op must assign to the indivisible reserves 50 percent of the profits if those are a result of business with non-members. This reserve fund has the ability to be leveraged for loans and can cover losses of the co-operative.

Interviewee Zorione Arregi, head of the Legal Department of MCC, points out that the spirit of the law has been to facilitate the capitalization of the co-operative with the mandatory contribution to the reserve fund, in this way, attempting to "correct the obstacles the co-operative suffers to attract capital that are not present in the case of an investor-owned firm." With the purpose of assisting the long-term financial stability and strength of the co-operatives' assets, these reserves cannot be drawn on by the employees/members. This means that in case of

dissolution of the organization, individual members cannot pull their investment because the law assigns the collective reserve to the co-op federation to which the organization belonged. This mechanism also motivates the members to work towards the success of the organization as in case of failure, they would lose their individual investments to the co-op federation. It also eliminates the incentive to demutualize or to turn the co-op into an IOF. The policy thus prioritizes the collective interest and survival of the organization over the interests of the individual members since in case of dissolution the individual members are not able to pull his/her personal investments from the organization. As a consequence of the education and consciousness raising around the need for a type of organization that better represented popular aspirations, this policy created a mechanism to help capitalization of co-ops that gives primacy to the interests of the organization over the individual economic interests of the members.

In turn, the Basque Co-operative Act 4/1993 establishes that the minimum contribution to the reserve fund for co-operatives in the Basque Country is 20 percent of the profits, similar to the Federal Co-op Act 27/1999. Interviewee Mikel Lezamiz, Co-op Dissemination Director at the International Department of MCC, explains that the Mondragon Group decided to increase the mandatory contribution to 45 percent of the profits to the reserve fund or indivisible reserves with the intention of strengthening the co-ops beyond the threshold the law mandates. This collective property notion was also noted in the Mondragon internal policy of sharing profits and losses among the co-ops. Such a notion might not be easily accepted in more individualistic factions within cultures such as Anglophone Canada.

The co-op education and promotion fund is established in article 56 of the Federal Co-operative Act 27/1999:

The co-op education and promotion fund will be allocated according to the bylaws or the General Assembly, to activities that meet one of the following purposes:

- a) Training and education of their members and workers in cooperative principles and values, or specific areas of corporate activity or employment and other cooperative activities.
- b) The diffusion of cooperatives, and promotion of inter-cooperative relations.

c) Promoting cultural, professional and caring local environment or community in general and improving the quality of life and community development and environmental protection actions.

Despite the market logic cited in the Exposition of Motives, the discourse here is more in tune with the social aspect of co-ops.

The education and promotion fund is non-seizable and indivisible between members; even in the event of liquidation of the co-operative, it must appear on the liabilities side of the accounts. The fund is audited every two years to ensure that co-ops comply with this law; they face fines in the amount of their shortfall should they fail to do so. Thus, should the co-operative not spend the funds according to the law, the amount becomes public debt and the co-operative risks losing its co-operative status. Article 58 establishes that the minimum contribution to the education and promotion fund is 5 percent of the profits at the end of the fiscal year but mentions no maximum. However, the Basque Co-operative Act 4/1993 increases the mandatory contribution to 10 percent of the profits for the Basque co-operatives in article 67.2.a. Mondragon's legal expert, Zorione Arregi, explains that the Basque law emphasizes the role co-ops play in community economic development, and for that reason, it mandates a higher percentage of contribution than the federal act.

As the concept of indivisible reserves gives primacy to the interests of the organization over the individual economic interests of the members, so does the education and promotion fund show a collective property approach. According to the Basque Co-op Act 4/1993, if a co-operative dissolves, after covering the losses and debts, the remaining indivisible reserves, and the education and promotion fund must go to the Basque Executive Council of Co-operatives for co-op development (art. 94.2). In the case of the Federal Co-op Act 27/1999, article 75.2 explains that the amount of the education and promotion fund and the remaining indivisible reserves will be made available to the co-operative federation that the co-op is associated with. If it is not affiliated with any federation, the General Assembly may designate the relevant co-operative federation. In the absence of designation, such amount shall be paid to the National Confederation of Co-operatives corresponding to the co-operative, and in the absence of the Confederation the amount shall be paid to general government revenue for the promotion of co-

operatives. “The policy maker understood that the reason of these provisions is the public purpose of a co-operative,” according to Zorione Arregi. This legal figure was created in the framework of the collective property notion, also noted in the Mondragon internal policy of sharing profits and losses among the co-ops.

4.4.1 Tax advantages for co-ops

Co-operatives in Spain receive substantial corporate tax advantages at the Federal and provincial level when comparing with privately owned firms. The Federal Co-operatives Tax Act (Law 20/1990) establishes that worker co-ops, agricultural co-ops, community exploitation of land co-ops, fishery co-ops, and consumer co-ops are considered "specially protected co-ops" and for that reason, the corporate income tax rate is 10 per cent of the profits (art. 2, and 34). The Mondragon Group is located in the Basque region, province of Guipuzkoa, which has its own Co-operatives Tax Act (2/1997) in which "fiscally protected co-operatives" are worker co-ops, agricultural co-ops, community exploitation co-ops, consumer co-ops, and school co-ops (art. 2 and 5). Federally and provincially all co-operatives, except credit unions, housing co-ops, insurance co-ops, service co-ops, school co-ops, transport co-ops, and health co-ops, are considered specially protected organizations for tax purposes. Like the Federal Co-op Tax Act, the tax rate for these co-ops is 10 percent as well (art. 27). In turn, investor owned firms' tax rate is about 28 percent. This tax advantage is one of the key policies that enable the development of the co-op sector. (See Appendix 6 for more details on the tax advantages for co-ops).

Tax legislation is one of the key policies that enabled the development of the co-op movement to achieve significant strength, capacity, and autonomy. Although these tax advantages did not exist when the Mondragon Group created its first support systems, services, and institutions, including a social security system, financial institutions, innovation and research centres, they certainly helped the subsequent development and expansion of the co-op group and its support institutions. The discourse of both tax laws, the Spanish and the Basque province of Gipuzkoa, is very revealing of the enormous value it places on co-operatives when it declares them as "fiscally protected" organizations, and creates another category as "specially protected" for some types of them. The norm expresses how deserving the co-op movement is of the policy maker's attention to grant it recognition and the necessary fiscal supports for its development. Certainly, the

discourse of the legal norm has been shaped by a co-construction process between social actors and policy makers as a consequence of a learning process.

Zorione Arregi explains that the policy, as in the case of the indivisible reserves, aimed at “correcting the legal obstacles co-ops face in attracting capital and resources that investor owned firms do not face when establishing the tax benefits.” Therefore, the intention of the legislator has been to try and level the playing field for co-ops since their legal structure does not allow for outside investment because it compromises the autonomy of the co-op, and co-operatives “produce positive socio-economic results in community development” that justify the advantages.

4.4.2 Hybrid co-operative forms: Mixed Co-op and Anonymous Labour Society

Creativity and innovation are, in part, a consequence of democratic participation in co-operatives as they try to adapt to cope with major challenges such as economic crises. The Basque Co-operative Act 4/1993 created the figures of the mixed co-operative and the Federal Anonymous Labour Society Act 4/1997 the anonymous labour society, both designed to face economic downturns. Specially, the figure of the mixed co-op is important because it was a product of the vision and creativity of the Mondragon group. The Federal Co-operative Act 27/1999 copied that legal figure in its article 109 using the exact same language as the article 136 of the Basque Co-operative Act 4/1993. Due to the practicality of the legal figure, the federal legislator adopted it as well, which speaks to the creativity and innovation of Mondragon that goes beyond itself. (See appendix 6 for more details on these two legal figures).

Pursuing laws and policy change was not a considerable hurdle for the co-operators once democracy was in place. According to Jesus Goienetxe, “Policy makers and government official regardless of their political colours have been, to varying degrees, on our side; it would have been difficult for them to turn us down since we produced very good results in community economic development.” Co-construction of policy since the democratic reform of Spain (1978) permitted innovative laws and regulations to be devised with the input of the co-operatives. Pedro Mendieta assigns to legislation and policies a mere instrumental and distributive character

because they can facilitate or not co-operatives' ability to develop. In this sense, "neutral" policy is key for co-operatives to develop, but "supportive" policy is not necessarily indispensable as the Mondragon co-ops developed without government supports (Hoyt, 1989, p. 89).

"Supportive" public policy, that is neither necessary, nor sufficient as Hoyt (1989) reminds us (p. 89). Mondragon's motivation and determination within an educational process plus an advantageous autarkic economic policy were the main determinants of their development.

4.5 Basque co-operative support organizations

Co-operative support organizations are a crucial part of the co-operative development process helping address the main obstacles such as lack of funding mechanisms, and technical assistance and education (Adeler, 2009; Cornforth & Thomas, 1990). It is also important to highlight for the purposes of this dissertation that public policy created co-op support organizations in the Basque region, for instance, the Executive Council of Co-operatives, Elkar-Lan Coop, OINARRI Loan Guarantee Company, and Elkar-Ikertegia Coop. Before these organizations existed the Mondragon group, however, started their own support organizations such as the credit union, and research and education centres at a time when public policy did not provide supportive co-operative institutions. (See appendix 7 for details on the Basque co-operative support organizations.)

4.6 Financing Mechanisms

4.6.1 Inter-co-operative Solidarity Fund, Central Co-operative Fund, MCC Investments, MCC Foundation.

As a consequence of the lesser role the credit union has played for the Mondragon group since the 1980s' legislative changes introduced by the National Bank of Spain, which required more diversification of the risk and less capital available to the co-ops, the Congress of 1987 established the Inter-co-operative Solidarity Fund. The Fund added to the sources of capital available for new and existing co-ops, especially to inject capital into co-ops in financial difficulties (Mathews, 1999). In 1991 this fund was included as part of the Central Inter-co-operation Fund, which channels resources for job creation "through the funding of development

and internationalization projects, and for strengthening the co-operatives by offsetting losses and providing financial guarantees" (MCC, 2008, p. 50). This fund encompasses two support entities. The first one is the MCC Foundation, an educational and training institution which helps co-operatives "with feasibility studies for new activities, marketing and sales networks overseas and assistance for co-operatives which are emerging, restructuring or retooling" (Mathews, 1999, p. 222). The second support entity is a venture capital fund, MCC Investments, whose function is to start new co-ops and assist with expansions of existing co-ops. The Central Inter-co-operation Fund exists thanks to a 10 percent annual contribution of the co-operatives' profits and 18.4 percent contribution of the credit union profits. As an example, in one year (1996), the Central Inter-co-operation Fund received \$US 80 million, which were distributed to MCC Foundation (\$US 55 million in contributions), and MCC Investments made investments in the co-ops worth \$25 million, (p. 222). In 2003, another fund was created, the Corporate Solidarity Fund, to supplement the system for offsetting any losses that might be incurred by co-operatives in the Industry Area, with 4.7 million euros received in 2008 (MCC, 2008, p. 50). These funds speak to the inter-co-operative solidarity and the collective property notion embedded in their culture that have been a feature of the Mondragon co-ops—and of their success—since they started in 1956.

The Fund for Education and Inter-co-operative Development established in 1989 to help small co-ops get access to large bids and major contract projects also funds non-profit educational and research projects through Mondragon education institutions and research centres. The funding comes from the mandatory 10 percent of the net profits for education and promotion fund. The Mondragon co-ops have chosen to assign the mandatory contribution to this Fund for Education and Inter-co-operative Development to pool resources and have a coherent strategy coordinated centrally. It is interesting to note that the Mondragon co-ops have worked in groups with a head institution coordinating and setting policy for the associated co-ops since the beginning. That trend continues today even for sharing losses and profits, and depositing mandatory contributions in central funds managed by MCC. In 2008, this fund reached 35.3 million euros (MCC, 2008, p. 50). The Mundukide Foundation was created in 1999 with the object of revitalizing the Mondragon co-op principles of solidarity, inter-co-operation, social transformation and universality, and apply them to the Developing World. MCC understood that Third World

countries could benefit from the lessons learned by the Mondragon co-op experience, and for that reason the foundation pursues co-operative development projects abroad.

4.7 Conclusion

In the context of answering the research questions of this dissertation, Mondragon co-operatives have tackled critical pieces of a successful co-operative development strategy: technical assistance, education, and financing. Those components plus their innovative internal policy mechanisms such as the individual capital accounts, and the principle-based approach to business (especially inter-co-operative solidarity, equality and sovereignty of labour over capital) make for an effective internal co-op development strategy. Spanish public policy, including new legal precedents (incorporation of the first industrial worker co-op and the credit union with a hybrid legal structure, both in 1959), the co-op legislation coming out of the 1978 Constitution, and tax legislation, complement the policy supports available for co-op development. The Mondragon co-ops have been able to make innovative change for themselves and beyond by devising a very effective support system for co-operative development.

We should note that along the lines of institutional theory (DiMaggio & Powell, 1991) and cultural studies (Denzin & Lincoln, 2005; Hall, 1980), the Mondragon co-op development reflects the socio-cultural and institutional features of the Spanish society of the time (1950s). Part of the brilliance of the institutional entrepreneur, Arizmendi, is to have identified the fissures in the system, and worked within that institutional system to create change in the way he envisioned. He worked with government officials as he did with his disciples. He founded a trades school to give local youth opportunities, and guided them to start the first industrial worker co-op in 1956. This leader was a product of a patriarchal, hierarchical culture even though he fought in the civil war (1936-1939) on the Republican side against the dictator Franco. Arizmendi reflected a common contradiction of the Spain of the time. He shaped teenagers going through the trades school to share his world view seeking social transformation through common people's access to the means of production, thereby democratizing the local economy. Arizmendi's reshaping of his disciples proved to be a long-term task. The economy was devastated, the youth had no opportunities for education or employment. As Ormaechea (1993)

recalled, they were “full of religious fervour, had been born in very humble families in years of social collapse and were on the verge of pathological hunger” (p. 15). In this context, the figure of a charismatic leader gave hope to the youth and naturally they followed him without questioning his methods. They did challenge some of his boldest ideas because they thought he was asking for impossible ventures, for instance, the need for a credit union, and the viability of such a business. These youth who bought into his world view did not mind Arizmendi forging their signatures in a meeting that never existed to establish the credit union. Nevertheless, an educational process was taking place thanks to the school and the practical learning in the co-ops. Some of the comments of interviewees show the contradiction of the culture. Unknowingly the disciples were brought up to expect directions, yet they also wanted to have a democratic and equalitarian enterprise. The learning process and capacity building of the workers was the result of Arizmendi's emphasis on education. When he died in 1976, the Mondragon co-ops kept growing as a result.

By the last years of the dictatorship, Spain was starting to recover economically and to show a desire for a more democratic state, which was achieved when Franco died in 1975. The Mondragon co-ops also reflected this change in society. As the learning process deepened over time, workers would internalize Arizmendi's values. Nevertheless, institutional design contained strong head organizations (i.e. the groups, the credit union, MCC) to coordinate strategy, set policy, approve accounts and budgets, coordinate transfer of workers among the co-ops, etc. Although the head organizations facilitated difficult tasks such as harmonizing profits and losses, it meant a decrease of the autonomy and sovereignty of individual co-ops. Apparently, co-operatives were willing to do so because protection from economic fluctuations, and supports such as affordable capital, expertise, and research outweighed the downsides of sharing profits with other co-ops and losing some autonomy. Still, the conscientization process the students and later workers went through was a key component of development that engraved Arizmendi's views, which facilitated the crafting and development of resilient co-op institutions.

Although the leadership and capacity building of the workers was happening, once Arizmendi died, the Mondragon group kept an institutional design with some top-down features. First, it was the groups and the credit union; now it is the Mondragon Co-operative Corporation (MCC)

that coordinates strategy and the internationalization process and manages inter-co-operative solidarity funds. As we have seen, interviewees mentioned shop floor workers' complaints that MCC is too bureaucratic, "inaccessible," keeping the power for those "above," and keeping financial information that would allow lower level workers to fully participate in democratic decision-making. Although internal democratic processes in the co-ops are real, the fact that some workers feel disempowered to participate is an important issue that could render the co-op group dysfunctional.

As institutional shape is the consequence of social actors, so is policy development. Socio-cultural embeddedness of policy and legislation is a result of the actions of social actors and policy makers influenced by cultural, economic, and political processes (Goodrich, Douzinas & Hachamovitch, 1994; Bauman, 2002; Engle, 2010) and Polanyi's (1957). Along those lines, Father Arizmendi searched for a legal structure for their business venture that would allow for worker ownership, democracy, and sovereignty of labour over capital because the existing co-operative law of 1942 did not include the figure of the worker co-op. The reality of co-operatives in Spain under the dictatorship was that they had to operate under the control of the public administration without revealing internal democratic practices unsupported in the legislation. In fact, a huge disconnection between the legal realm and the actual practices co-operatives followed was the consequence of the political and legal oppression (Atienza Mazias, Merino Mar & Ruiz Huydobro, 2004). In that scenario, Arizmendi's tenacity in building relationships with the government officials responsible for the co-operative portfolio in Madrid proved to be extremely valuable because the Mondragon co-ops were able to incorporate as such despite the legal void. Although the authorization to exist is a "neutral" policy and not a "supportive" policy for co-ops, it was very necessary for the Mondragon co-op development (Hoyt, 1989, p. 89). The brilliance of Arizmendi is in identifying the opportunities within the system, in building the capacity and leadership of young people, and in designing novel institutional forms that reflected the culture and at the same time challenged it for change.

Legislative changes after Franco facilitated co-operative development. In 1978, the new Spanish constitution recognized the value of co-operatives, deemed them deserving of all the supports the legislation could provide, and acknowledged the importance of facilitating the ownership of the

means of production by workers. That norm, in turn, determined future co-operative development. Examples of this notion are the Federal Co-operatives Act 27/1999, the Basque Co-op Act 4/1993, the Spanish federal tax Act 20/1990, and the Basque province of Gipuzkoa Tax Act 2/1997. For instance, the Basque Co-op Act 4/1993 expressly states that in case of tied bids for public contracts, the public administration will give the preference to worker co-ops, second tier co-ops, or further tiers of worker co-ops, setting an important procurement policy precedent. The Mondragon Group had considerable influence in crafting the legislation. Federal and regional co-op legislation alike included the legal figure of the reserve fund or indivisible reserves, and the co-op education and promotion fund that every co-op ought to contribute to. If a co-op dissolves, the indivisible reserves and the co-op education and promotion fund must go to a public entity such as the co-op confederation, in the Spanish case, or the Executive Co-op Council, in the Basque case, for co-operative development and promotion. This collective property framework is also reflected in the policy of pooling resources and harmonizing profits and losses in the Mondragon co-ops. Indeed, the social constructions of the co-operators and the legislators, thanks to a valued educational process, are captured in the discourse of the legal provisions highlighting the public and collective purpose of co-operatives. Spanish and Basque socio-cultural features as well as their political and economic processes did encourage innovative policy that assisted co-operative development.

The process of crafting and elaborating co-op policy by several interested parties on an equal basis, or "co-construction," leads to a more effective policy given that the "flexibility of the co-operative" approaches may result in "innovations" (Vaillancourt, 2008, p. 12, 36). The discourse of both tax laws, the Spanish federal tax law and the Basque province of Gipuzkoa tax law, is a consequence of a co-construction process that reveals the value it places on co-operatives when it declares all of them as "fiscally protected" organizations, and it creates another category as "specially protected" for some types. The norm expresses how deserving the co-op movement, is of the policy maker's attention to grant it recognition and the necessary fiscal supports for development that level the playing field with investor-owned firms. One important example involves the tax advantages for co-ops resulting from this co-construction process, significant for the development of the movement.

Innovation and creativity are key themes in the Mondragon development strategy. For instance, the mixed co-op, explained Pedro Mendieta, Jesus Goienetxe, and Zorione Arregi, was a legal figure devised by Mondragon legal experts advising the Executive Council of Co-ops of the Basque Country as the temporary solution to the economic crisis of the 1980s. Indeed, public policy plays a critical role in strengthening co-operatives since the lower corporation tax rate, the co-op education and promotion fund, as well as internal Mondragon policies of retaining surplus in both the indivisible reserves and the individual capital accounts, the co-operative group retains 80 percent of its annual net profits as assets, significantly enhancing its financial sustainability.

Co-operatives engaging in developing other co-operatives in the Mondragon case avoid some of the dangers of government-led development for political reasons. Established co-ops have gone through the process themselves, can provide first-hand technical assistance, support, in some cases even financing, and offer a sense of belonging to a movement (Pollet & Develtere, 2004). The Mondragon co-ops pursuing the development of other co-ops as a primary goal showed positive results. Their institutionalization of co-op development is a testimony to that fact.

CHAPTER V. CONCLUSIONS: TWO CONTRASTING VIEWS OF CO-OPERATIVE DEVELOPMENT

This dissertation has explored the particular evolution of an organization, the Mondragon group, to better understand the co-operative development process. This study has uncovered the importance of institutional frameworks in the process of understanding the development of the Mondragon group. By analyzing its well-known development story, this dissertation has helped rethink the often taken for granted assumptions of much of the literature on co-operative and policy development. Within the context of co-operative development factors and strategies widely discussed in the literature, this interdisciplinary dissertation has explored the extent to which Mondragon's development is deeply embedded in and shaped by the cultural and institutional contradictions of its environment.

Institutional frameworks provide stability and order to social life, yet conflict and change as much as consensus and conformity in social structures are elements of institutions (Scott, 2005). As we have seen in the Mondragon case, institutional frameworks that seem so natural as to appear invisible and inevitable have cracks and complexities that open up room to counter the dominant logic. Those cracks and fissures become visible with an "erosion of beliefs and rules" that leads to those disadvantaged by the system pursuing change through collective action (Scott, 2005, p. 414). In challenging yet remaining implicated in the dominant system, inherent contradictions in the legal and cultural domains become visible as social actors seek change. Since co-operatives are collective organizations that tend to emerge as a reaction to the status quo, they will often reproduce at least some of the contradictions they engage with as they pursue change. For instance, Mondragon social actors sought social change in reacting against the dictatorship but not without reproducing some of the authoritarian traces in the structure in the co-ops. These tensions and contradictions are often overlooked by the co-op development literature, missing the influence of institutional complexities in development. The Mondragon co-ops developed in spite of a hostile political environment within a favourable autarkic economic policy that created a national market for the co-ops' products. Socio-cultural factors played a role in the institutional design Arizmendi crafted for the co-ops, mixing some authoritarian features in what is supposed to be a democratic and egalitarian institution,

contradicting the third co-operative principle, democracy, and the co-operative value, equality. The institutional framework developed as a consequence of and consistent with mid-twentieth-century Spanish culture, when social actors could not fully escape the top-down social priorities of that time. The creation of democratic organizations through sometimes undemocratic means is one of the contradictions of the Spanish culture reflected in Mondragon's institutional shape. Precisely, change becomes possible because of the fissures and contradictions in the legal and cultural domains that allow social actors to take advantage of them, but not without residual complexities and contradictions. For instance, Spain did not have worker co-op legislation in the 1950s, but Arizmendi sought a solution to the legal limbo faced by the first worker co-op, ULGOR, finding a crack in the tight, oppressive, and controlling system. He convinced the public authorities of the importance of an enterprise that presented no threat to the regime. Similarly, Arizmendi achieved the incorporation of the credit union in 1959 with a hybrid structure, novel to Spanish legislation, by working together with government officials and making them see that the new credit union structure was not against the law.

Chapter III traced the influence of major institutions that help or hinder co-operative development by the Mondragon group. Chapter III unveiled Franco's oppressive regime of cultural legitimization that used religious and patriotic arguments to manufacture consent and legitimize the exploitation of the working class. However, those "regimes of truth" or legitimization strategies produce resistance (Foucault, 1991). In that context of domination, new educational practices involving a process of conscientization encouraged by the institutional entrepreneur, Arizmendi, allowed social actors to envision a new type of organization that responded to their socio-cultural and economic needs (DiMaggio & Powell, 1991). A critical analysis of co-operative laws and their evolution has revealed the embeddedness of policy and legislation in the social realm, which in the particular context of Franco's Spain privileged the groups in power and disadvantaged the rest (Atienza Mazias, Merino Mar & Ruiz Huydobro, 2004; Aymerich Cruells, 2008; del Arco, 1983; Mathews, 1999; Ormaechea, 1993; Zaar, 2010). However, that institutional framework also allowed for social actors to effect change. The convergence of structural faults and social actors, the persistence of Arizmendi, and the authority of Jose Luis del Arco found a solution to the legal limbo facing the first worker co-op, ULGOR. Jose Luis del Arco (1983) interpreted the existing co-op law in its spirit and found that it was not

against the structure the workers were pursuing. Although this approach to achieving legal change was likely only possible in a dictatorship. Arizmendi was able to identify and take advantage of an opportunity in the institutional framework that allowed the co-ops to exist in the way he envisioned. In this case, co-op development was a product of the pressure that social actors exerted on individuals and institutions to achieve the necessary legal changes.

Following institutional theory (DiMaggio & Powell, 1991), the vision of the institutional entrepreneur (Arizmendi) was decisive in creating, maintaining, and changing organizations in order to adapt to the external environment and its socio-economic, cultural, legal, and political challenges. As a social entrepreneur as well, Arizmendi worked within the system to create the new organizations he envisioned would achieve social-economic change. In this case, he devised a new institutional form that combined an informal top-down governance model within a formally democratic and egalitarian structure, which in itself reflected the contradiction of Spanish culture. Living in a dictatorship, the institutions mirrored and mitigated the major organizations of the system, reflecting the investments in a more democratic society among those that fought in the civil war and lost (Aymerich Cruells, 2008; Richards, 1996). Consequently, as some sought change, they crafted new institutions even though those institutional forms kept traces of the dominant logic.

Arizmendi's efforts were dedicated to education as soon as he arrived in Mondragon. He identified "education and credit", as the two pillars of a healthy co-op movement (del Arco, 1983, p. 31). Community development initiatives, such as starting a soccer program for youth, daily parish work, the journal *Trabajo y Union*, and the Polytechnic School, were crucial to awakening a consciousness around structural barriers, which fueled the motivation to seek socio-economic change (Freire, 1970). The school both indoctrinated youth and supplied an educated work force to the co-operatives (MacLeod, 1997; Whyte & Whyte, 1991; Morrison, 1991; Matthews, 1999; Ormaechea, 1993). Similarly, the embedding of the enterprises in a research-rich environment (i.e., Ikerlan, Saiolan, Garaia Innovation Centre, etc) in order to supply cutting edge technology to the co-ops was also a key co-op development strategy. Since the social actors were inexperienced young adults and teenagers, the presence of a strong leader that mentored and guided them in starting and developing the enterprises was crucial to their development.

Despite the fact that Arizmendi was a leader with considerable power over his young disciples, an educational process was taking place that was building the skills, leadership, and independence of his disciples.

The contradictions in the institutional framework had an important influence on co-operative development. The Caja Laboral Popular, or the credit union founding general meeting was one of the examples that showed the power of Arizmendi over his disciples as he forged their signatures when they refused to go ahead, and incorporated the institution (Ormaechea, 1993). It is also important to highlight that Arizmendi was trained in and represented the hierarchical and top-down Catholic Church, which also influenced his strong approach in dealing with parish work, the school, the co-ops, and his disciples. The credit union did not allow community depositors to become members to keep the control of the organization in the hands of the workers and the industrial co-ops (Ormaechea, 1993). It was devised as the head organization of the group with the goal of coordinating general strategy, setting policy for the associated co-ops, and approving all of their accounts. This is noted in the institutional design of a central head organization (first the credit union and then MCC), for the co-op group that mirrored the role of the strong leader. Since the credit union was an indispensable source of capital as well as a critical provider of technical assistance for co-op start-ups or expansion (Caja Laboral Popular, 2012; MacLeod, 1997; Matthews, 1999; Morrison, 1991; Ormaechea, 1993; Whyte & Whyte, 1991), its services to the associated co-ops were crucial to their development and a strong incentive for the businesses to stay in the group. Those advantages outweighed the downsides of disaffiliating from the group and kept the co-ops within the group. The same central strategy is noted in the relationship between the co-ops and the research and innovation centres. The research centres are not fully autonomous or able to set their own research priorities, as they are allowed only to pursue research on products that can be produced by the co-ops themselves and that also are labour intensive in keeping with the mission of employment development. Once more, we can see the complexities and contradictions of the structure of the Mondragon group that still linger today.

Although there is much to be learned from legal positivism, it typically fails to explore the embeddedness of policy and legislation in the social realm as it sees the process of policy

elaboration as neutral and objective (Bauman, 2002; Polanyi, 1957). For instance, the internal policy mechanisms of the Mondragon co-ops are a result of their needs and aspirations. The internal policy mechanisms include the individualized capital accounts designed to partially address the principal-agent dilemma (Fulton & Laycock, 1990), the inter-co-operation and solidarity values, the employment creation goal, and the establishment of co-op groups or clusters for mutual help and control of the associated co-ops (Matthews, 1999; Ormaechea, 1993). The hybrid type of credit union envisioned by Arizmendi, which included workers as members, had no legal support in existing co-op legislation in the same way that the first worker co-op was in legal limbo. Spanish legal innovations are also a product of the pressure of social actors on the system. Examples of this process include the Constitutional recognition of co-ops, the mandatory indivisible reserves, the mandatory co-op education and promotion fund, the reduced corporate income tax rates for co-ops, and the Mondragon-devised mixed co-op and labour society (Spanish Constitution, 1978; Federal Co-op Act 27/1999, Basque Co-op Act 4/1993; Federal Tax Act for Co-operatives 20/1990; Guipuzkoa Co-op Tax Act 2/1997). These Spanish legal innovations and the Mondragon internal policy mechanisms are important because they have positively influenced co-operative development.

Chapter V picks up on the lessons learned from Mondragon's institutional framework to highlight some of the tensions and contradictions found in the co-operative development path in Manitoba in the last decade. Within this framework, the tensions between collective and individualistic approaches in the co-operative sector are unveiled. The particular choices of social actors that contradict co-operative principles, as well as the influence of those contradictions on co-operative development, are analyzed in light of the findings from the Mondragon case.

5.1 A contradiction in co-operative development in Manitoba: collectivism vs. individualism in the process of institutional change

The comparative nature of this dissertation permits us to learn from innovative examples elsewhere to shed light on how institutions are crafted and how they change in settings close to home. It is typically easier to recognize processes of which we are not a part and in which we are

thus less invested. The critical distance of the Mondragon case can help clarify change processes in which we participate in Canada. Since the researcher has been part of striking changes in the co-operative sector in Manitoba within the last ten years, comparing the Canadian and Spanish experiences can help clarify decisive factors that have shaped and reshaped Manitoba policy and practice. Both examples share complexities and contradictions that let us put the research in perspective. For these reasons, a Manitoba case is included into this study to bring light to the comparison of institutional change.

All co-operatives face a dilemma in balancing collective interests and individual members' interests. However, this tension will produce different outcomes depending on the socio-cultural, political, and legal setting of a particular co-operative. Co-operatives are collective organizations set to achieve individual goals through the collective participation of all members in the enterprise. Tensions and contradictions will arise as a consequence of this dilemma. Finding what the membership considers a right balance between collectivism and individualism in the organization is related to the needs, views, assumptions, and beliefs of the members, which are in turn embedded in the cultural domain. External economic and legal factors will also influence the balance between collectivism and individualism. Some co-operatives may be more prone to one or the other end of the spectrum revealing collective or individualistic features. Collective cultures such as the Spanish one seem more inclined to give priority to the interests of the organization over the individual members' interests. That explains why they seem to be more comfortable with a collective property approach, which is ultimately captured in the legislation.

As individuals pool resources to satisfy mutual needs through a co-operative organization, co-operatives also join together to create second tier co-op organizations or umbrella organizations to fulfill goals individual co-ops cannot achieve by themselves. Those reasons can be economic, as in the case of retail co-operatives forming a wholesale co-op, producer co-ops creating a manufacturing co-op, or credit unions forming a credit union central. Co-operatives also join umbrella organizations for motives such as advocacy, sector representation, and lobbying as seen in the case of housing co-ops. By joining umbrella organizations, co-operatives benefit from the collective effort, but also are bounded, to varying degrees, by member dues and decisions made by the umbrella organization, which may create tensions. In this way, the advantages of

collective organizations have to outweigh the disadvantages, or individual members would not see the benefits of pooling resources. According to a key long-time co-op figure in Manitoba, "the 6th co-op principle, co-operation among co-ops, encourages co-ops to form umbrella organizations because they share in a particular world view." On the one hand, the benefits provided by the umbrella organization make it relevant to the members; on the other hand, the capacity and mandate of the umbrella organization depend on the members' willingness to contribute to it. For that reason, the participation of co-operatives in umbrella organizations is a symptom of co-op sector cohesiveness. In the case of Mondragon, the first co-operatives joined together to form second tier entities or groups because this made it possible for them to apply a more uniform policy and strategy across the associated co-ops, and provided protection from possible market fluctuations—an approach that proved to be an added economic advantage. However, the Mondragon co-ops have to surrender some autonomy and democracy by belonging to a strong and centralist umbrella organization. They are also burdened by member dues and sharing of profits and losses. Nevertheless, in their view, the benefits outweigh the downsides revealing a collective tendency characteristic of the Spanish culture (interviewee Jose Ramon Elortza).

In Manitoba, co-operatives are represented by the Manitoba Co-operative Association (MCA). It was in the early 1980s that "representatives from Arctic Co-operatives Limited decided to create a Manitoba Co-operative Council to represent co-operatives in the province; it had only one part-time volunteer staff person and its reach and relevance was very limited," according to a long-time co-op spokesperson. Building on the intentions of the 1980s, a group of large provincially based co-operatives such as Federated Co-operatives Limited (FCL), Arctic Co-operatives Limited (ACL), Credit Union Central Manitoba (CUCM), The Co-operators, CUMIS Group Limited, Nor'West Co-op, Manitoba Pool Elevators, United Grain Growers (UGG), and Housing Co-operative Council of Manitoba (predecessor of CHF Canada – MB Office) created the Manitoba Co-operative Council in late 1980s. The Manitoba Co-operative Council was "closely related to the Canadian Co-operative Association (CCA) and functioned as a provincial arm of the national organization, even though its funding was the result of local member dues," according to a key co-operative figure. Its mandate was to engage in education through the youth leadership program, international development placing youth in co-op internships overseas

through CCA, and regional dialogues. The same key co-op figure mentioned, "The organization changed its name to the Manitoba Co-op Association in 2005 and became a non-profit co-op with one paid staff." The Board of Directors of MCA has representatives from Credit Union Central, Federated Co-ops, Arctic Co-ops, The Co-operators, the Worker Co-op Federation, the Housing Co-op Federation, Nostalgia Radio Co-op, and other Manitoba co-ops. The Board composition is similar to the Co-op Council's Board.

Whereas estimates suggest that there are over 410 co-ops and credit unions and *caisses populaires* with a membership of 800,000 and about \$22 billion in assets (CCA, June 2008), only about 150 co-ops and their federations participate as members of the Association (Manitoba Co-op Association, 2008). According to a co-op spokesperson, "co-operatives in this province do not see themselves as belonging to a movement. They are somewhat individualistic and do not want to join MCA because they do not see any value in it, or they simply prefer to be left alone." Part of their behaviour today may be based on the fact that the Manitoba Co-op Council did not engage smaller co-op organizations and did not pursue co-operative development as its mandate, according to a long-time co-op spokesperson. Another key co-operative figure mentioned that "many co-operatives in this province do not understand the value of belonging to a federation as they do not see themselves as part of the co-operative movement." This phenomenon would seem to indicate that many co-operatives do not fully commit themselves to integrating all co-op principles into their organizations, in this case the principle of co-ops supporting co-ops.

As was seen in the case of Mondragon, the observance of co-operative principles and values has proven to be a comparative and competitive advantage for them in the marketplace. In contrast, there seems to be a prevalence of economic motives for co-operation over social and cultural motives in Manitoba. Poor integration and cohesion among the co-ops appears to be a consequence of views that privilege individual interests over the collective ones, and the non-understanding of co-op principles.

Socio-cultural aspects have an important influence in how institutions are crafted, how they evolve, and respond to changes in the environment affecting institutional shape and the development path (DiMaggio & Powell, 1991). Since co-operatives are principle-based

organizations, they are bounded by "co-operation among co-ops" and "education" principles, but the observance of those principles is not mandatory according to the Manitoba Coops Act (2011), leaving it up to the co-operative to follow them or not. The Act allows co-ops not to follow all the principles and so many co-ops do not feel compelled to or they utterly ignore them. As Manitoba co-ops tend to give priority to individualistic interests, they are contradicting some co-operative principles, and may be at a disadvantage as they may not see or understand the value in working together and educating themselves and others. As a key co-op figure puts it, "speaking about co-operation among co-ops, and education of members and public, seems to be a bad joke because many co-ops in this province do not have those principles on their radar." The prevalence of individualism over the collective interests of the group, and the pragmatism of self-interest result in low participation rates of Manitoba co-operatives in MCA, which leads to a low level of invested resources that further weakens the movement.

In contrast to the institutionalization of co-operative development Mondragon has crafted, the Manitoba co-operative sector has not been interested in co-op development to the same degree. Laycock (1987) explains that in the 1980s government invited the Co-operative Council, predecessor of the Manitoba Cooperative Association, to participate in research and the promotion of worker co-ops, "which was to include a government-sponsored trip for co-operative officials to Europe" in order to investigate worker and farmer co-ops (p. 145). The Council rejected the invitation, responding that "they were not interested in and had no time for such activity" (p. 145). Perhaps the fact that the Co-op Council's Board did not count with worker co-op representatives, and co-operative development was not in its mandate, may have played a role in its disinterest in worker co-op development. It seems that a divide between consumer/producer and worker co-ops existed that, to some extent, has been addressed by the fact that worker co-ops are part of the MCA board of directors today along with the consumer/producer co-ops.

In understanding the process of institutional change, we have to account for a shift in views in the co-operatives represented at MCA's Board in the last few years. A few factors influenced this recent change. In early 2005, funding from the Co-op Development Initiative (CDI) allowed the Co-op Council to become a formal organization, and to hire a full-time staff person, Vera

Goussaert, who happened to have a personal history in co-op development. "She brought a personal passion for co-op development and a strong character to MCA" according to a key co-op figure. Since then, the Board "took more seriously the role of leadership in co-op development in the province," as one co-op spokesperson mentioned. The presence of a board member with personal experience as a co-op developer, Cindy Coker, was relevant in changing the views of the Board through a conscientization process. Cindy Coker insisted on the need to invest more resources on co-op development, and education through a partnership with the university, and championed the co-op development tax credit and the discussions to create a co-op university program. According to a key co-op figure, "since 2005, the Board of MCA has been investing more resources than previously and took a stronger approach in lobbying the provincial government to invest in the co-op sector." Those lobbying efforts caused the government to announce in the November 2007 Speech to the Throne \$250,000 per year for 5 years in support of co-op development. The provincial government launched the Co-operative Community Strategy in 2008 that led to consultations with the co-op sector to decide how to support co-operative development (MHCD, 2012). The process of consultations made forty stakeholders reflect on what the Manitoba co-op sector should look like in 10 years. The consultations galvanized a conscientization process as social actors have to reflect and think critically about their circumstances, which is a crucial part of the process of change in institutions. One of the steps taken was the approval of the Co-operative Development Tax Credit managed by MCA in 2010 (Manitoba Finance, 2010). A convergence of structural faults, the new vision of social actors, and the willingness of the provincial government to fund the initiatives, resulted in the major co-ops showing interest in supporting co-op development and achieving change.

Another sign of the institutional change at MCA has been the investment in education and research. The co-op sector invested in the creation of a co-operative chair at the Agriculture Economics Department of the University of Manitoba in the early 2000s. According to a key co-op sector figure, "the co-operative sector had expectations of closer connections between academia and the co-op movement as well as the creation of co-operative classes at the Agriculture Economics Department, but those hopes did not come to reality." In 2013, the co-op sector invested resources to create a co-operative chair at the Business School, University of

Winnipeg under an agreement between the university, the co-op sector, and the province to develop a business major in co-operative management. The need to address the lack of education became visible as a consequence of the consultation process and the persuasive influence of a Board member, Cindy Coker. According to a co-op informant, "most of the directors at the MCA's Board are senior men close to retirement, who have realized that there is a lack of younger and skilled leadership among the co-ops they represent and they have decided to invest in a co-op chair position at the School of Business and Administration of the University of Winnipeg."

Investing in a university program on co-operative management is a strategy to build the capacity and the education of the co-operative sector at the same time as investing in a younger generation of future skilled co-operators. However, the interest of the established co-ops in education is geared towards managerial aspects that tend to reproduce the ideology, techniques, and behaviour of investor-owned firms in co-operatives rather than focusing on co-op education to build awareness about the value of co-operatives to keep the co-op spirit alive that may attract youth to join the movement.

The financial support from the provincial government and the willingness of the Business School to include a co-operative program within the Bachelor of Business degree acted as important incentives without which the initiative would not have happened. From the early indifference of the major co-operatives represented at MCA in developing the co-op sector, there has been an evolution in the perceptions and thinking of leaders of the co-operative movement, and in how institutional entrepreneurs forge change. That process of change in the organization was precipitated by a convergence of factors such as the formalization of MCA, an awareness raising process at the provincial consultations, the role of a Board member and the Executive Director of MCA, and the financial support obtained from the government. Social actors took advantage of the contradictions in a supposedly principled-based co-op movement to make change through a reflection process.

5.1.1 Collectivism versus individualism: a socio-cultural tension captured in policy

As a potential instrument to support co-op development, policy and legislation have been studied in a social constructionist fashion because this approach focuses on the values that underline the choices and accountability of social actors rather than naturalizing the process of change. In this way, this dissertation has uncovered the embeddedness of legislation in the cultural domain. Ish, Turner & Fulton (2006) remind us that the legal system "typically reacts to and reflects the changing needs and values of society rather than acting as an architect of these values" (p. 4), although the legal system can also reshape those values, including their complexities and contradictions. For instance, collectivism and individualism are not ever entirely separate but are mutually defined. They interplay and reshape each other as social actors have inevitably both interests. A culture showing more individualistic tendencies will likely produce policy that emphasizes the individual interests in organizations over the collective goals. The collective vs. individual tension noted in co-operative development of the province is also noted in the legislation and policy as a consequence of their embeddedness in the social realm.

The tax legislation is a case in point. The Canadian tax system does not distinguish between co-operatives and other corporations, resulting in identical corporate income tax rates (Holland, 1981). For example, the Manitoba tax structure for personal and corporate income does not provide any comparative advantage for co-operatives, although co-ops are benefiting in general alongside investor-owned firms as the provincial government eliminated the corporate income tax for small-medium size businesses in 2010 (see Table 5.1 below).

Table 5.1 Corporate income tax rates since 1999

<i>Taxable Income</i>	<i>1999</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
Up to \$200,000	8%	3.0%	2.0%	1.0%	0%
\$200,000 to \$400,000	17.0%	3.0%	2.0%	1.0%	0%
Over \$400,000	17.0%	14.0%	13.0%	12.0%	11%

Source: Manitoba Finance (2007). "Budget Paper C. Taxation Adjustments", page C6; Manitoba Finance (2010).

A more specific and advantageous tax policy for co-operatives that serves to strengthen the sector and its infrastructure, as is the case in Spain, is almost completely absent in Canada (Adeler, 2009). In Spain, the tax legislation grants co-operatives "protected or specially protected" status, which leads to a 10 percent corporate income tax rate whereas investor-owned firms pay 28 percent as analyzed in chapter IV. Such a preferential tax treatment was never even considered in Canada (Holland, 1981) because policy makers tended not to favour or understand the value of co-ops (Adeler, 2009), possibly due to a different cultural framework that emphasized individual action and ownership over the benefits of collective action and collective property frameworks. According to Ish (1995) the law tends to operate within set positivistic frameworks that do not recognize or support the differences of co-operatives from private businesses. Ish (1995) and Findlay (2003) point to the dilemma co-operatives face as legislation and court adjudication of disputes involving co-operatives constrain democratic decision making and impose an individualistic ideology within a democratic, collective, and autonomous organization. In this case, co-operatives face an institutional contradiction in the legal framework that favours a non-co-operative and undemocratic logic.

Following a different institutional framework, Spanish legislation creates mandatory indivisible reserves in order to strengthen the co-op sector. While that concept is allowed in Anglophone Canadian co-op legislation, it is only on a voluntary basis. Only Quebec has a mandatory legal provision for indivisible reserves in co-operatives. Quebec understood the limitations of individualism and individual property rights within a collective enterprise and therefore pursued the benefits of mandatory indivisible reserves in order to facilitate capitalization of the business. (See in Appendix 8 the details of the Quebec mandatory indivisible reserves.) In Manitoba, the Manitoba Coops Act (2011) establishes: "For the purposes of this Act, a cooperative is organized and operated, and carries on business, on a cooperative basis if," . . . "(g) surplus funds arising from the cooperative's operations are used" . . . "(iii) to provide for reserves..." (art. 4.1). This article leaves it up to the co-op to voluntarily organize reserve funds if it chooses to do so, but still not in an indivisible manner, meaning that in case of dissolution the remaining reserves will still be distributed among the members rather than invested in co-op sector development. A

provision to ensure that those reserves would be destined to a co-op federation, umbrella organization, or co-op development resources more generally seems unacceptable to mainstream Anglophone Canada's individualistic priorities. According to a long-time co-op spokesperson, "the idea of mandatory indivisible reserves, which in case of business dissolution cannot be distributed to the members, would not be accepted in English-Canada; it is too socialist a concept to be accepted among our co-operatives." An important co-operative figure explained that "the biggest obstacle to co-operative development in Manitoba is an individualistic ideology that is a barrier to collective action." That pragmatic and individualistic culture shapes member involvement in co-operatives and determines the co-operative's behaviour, and also impacts public policy development.

A new Co-op Development Tax Credit was included in the 2010 Provincial Budget (Manitoba Finance, 2010). The Co-op Community Strategy provided the framework and legal background to approve it. The tax credit was the result of policy co-construction between the co-operative sector and the provincial government. It was the initiative of a board member of MCA, Cindy Coker, and a researcher, Monica J. Adeler, who worked on the idea and design of the tax credit, and together they were able to convince MCA's board and government of its benefits. The goal of this tax credit is to generate investment from the co-op sector in support of co-op development in Manitoba through the provision of technical assistance, the co-ordination of existing services, and the provision of small grants (MCA, 2010). Every co-op can make voluntary financial contributions to a fund managed by the Manitoba Co-operative Association for the purposes described, and receive a tax credit for their contribution. The tax credit and its fund are the first of their kind in Canada and a number of other provinces are exploring replication of the model (MCA, 2010). The tax credit is provided for annual contributions up to \$50,000 and is either a refundable or non-refundable tax credit depending on the amount of the co-op's contribution. These contributions will receive a tiered tax credit as follows:

- Contributions of \$0 to \$1,000: 75 per cent refundable tax credit;
- Contributions of \$1,000 to \$10,000: 75 per cent non-refundable tax credit;
- Contributions of \$10,000 to \$30,000: 50 per cent non-refundable tax credit;
- Contributions of \$30,000 to \$50,000: 33.3 per cent non-refundable tax credit; (MCA, 2010)

In the first three months of the initiative being active in the fall of 2010, twenty nine co-ops and credit unions contributed \$72,000 to the fund (Bernas & Reimer, 2012). The larger co-operatives represented at MCA's board of directors pressed for change showing leadership and a willingness to contribute to a collective approach for mutual benefit although they do not need to take advantage of the services MCA provides because they have their own technical assistance and advisory services. Precisely, MCA's services are geared toward small and medium sized co-ops, which can not afford them and do not contribute to the tax credit. By the end of 2011, several co-ops and credit unions in Manitoba have taken advantage of the opportunity to contribute to this fund and together have raised \$159,500 to support cooperative development (MCA, 2012). However, this level of co-op participation also reveals a rather low participation rate considering that the province has over four hundred co-ops, again revealing the lack of sector-wide interest in supporting co-op development.

According to one key co-op figure, "since the province has over four hundred co-ops, it is disappointing that only a few of them contribute to the tax credit. They do not seem to understand that indirectly they may be contributing to themselves, because they may receive services or grants from MCA's tax credit fund." One task for the newly created Co-op Development Advisor position at MCA is to promote the tax credit and ensure that co-ops in Manitoba understand what the benefits of the model are to them and to the sector. However, many co-operatives still "do not have any interest in participating," according to a key co-operative figure, even though they understand the benefits. The lack of a movement consciousness among some co-ops, as well as the fragmentations and individualistic tendencies in the co-op sector, has impeded the growth of the movement and undermined the principle of co-operation among co-ops. However, the institutional change noted at MCA, and the shift in views among the major co-ops will likely have an impact on the smaller co-ops in the medium and long term as they benefit from the co-op development tax credit fund.

5.2 Conclusion

This study has analyzed the role and importance of tensions and contradictions in institutional frameworks at the heart of co-operative development. Contradictions are an expected part of the

co-op development phenomenon because co-operatives tend to be reactionary institutions in an active process of change. However, once they are created, they can also become passive organizations that resist rather than react. It is important to highlight this dichotomy. As co-ops react to the status quo that does not serve some groups well, they inherently carry tensions and contradictions in the process of change. Underneath that process of institutional change lie the group visions and aspirations that create a new framework while reacting to the status quo. That tension of organizations that are simultaneously reactionary and visionary has been noted in the Mondragon group story. Seeking change to an oppressive political and social system, and feeling pressured by acute poverty and lack of opportunities, Mondragon's social actors created a new institutional framework—democratic and egalitarian—that nevertheless reflected some authoritarian features of the society's cultural and legal domains.

The importance of the contradictions lies in their influence on the development of the co-ops. Since the members of the co-ops were teenagers and young adults with little knowledge and experience in starting and managing industrial enterprises, they benefitted from the guidance and mentoring of a strong and creative leader. As interviewee Pedro Mendieta recalls, “We were modest and humble working class rural people in a small town of a depressed economy coming out of a civil war, barely becoming foremen, mechanics, engineers.” Arizmendi educated them in a values-based vision that conditioned member choices and goals such as solidarity, employment creation and fairer distribution of wealth that led to a collective approach to address needs. Centralist organizations, even though they were co-ops, were built as a result of this world vision, and presented advantages that more decentralized and isolated co-ops might miss. For instance, the economic advantage of protecting each other from market failures through the access to capital and expertise, and the sharing of the profits and losses, contributed to minimal enterprise failures over the years. The fact that the Mondragon co-ops are legally (through a contract of association), economically (through common business dealings), socially (through social bonds and a shared vision), and politically (through a strong lobbying and representation power in front of government) connected to each other and overseen by a central head organization (MCC) gives them economic, political, and social benefits. These advantages seem to outweigh the disadvantages of equalization of profits and losses, a tight internal bureaucracy, obligations within the group, a constrained democracy, and the loss, to some degree, of

autonomy to make their own decisions as individual co-ops. If these disadvantages were too much to bear for the co-ops, they are free to disaffiliate. In the context of the Spanish culture and times, the institutional framework created for the Mondragon co-ops made sense and proved socially and economically successful. The kind of close relationship of the Mondragon group with its benefits and downsides, is missed in Manitoba by the co-ops that do not want to belong to a group, umbrella organization, or a movement. Nevertheless, the process of institutional change has highlighted how some major co-ops have shifted their views to make innovative changes around co-op development.

The study of some of the contradictions in institutional frameworks observed in Manitoba has focused on the collective vs. individualistic approach of the co-op sector, the non-observance of the co-op principles of co-operation among co-ops, education, and their influence on co-op development. For instance, the participation of co-operatives in federations and umbrella organizations is low. A considerable number of co-operatives do not follow all co-op principles, and consequently most of the co-ops in the province do not participate in the collective initiatives led by the Manitoba Co-op Association (MCA, 2008). Despite that fact, a process of institutional change has been observed at MCA that let us draw a few concluding thoughts. Processes of institutional change are often pursued by a group of visionary institutional entrepreneurs who are able to work within the system to achieve the changes they deem necessary. Those social actors are frequently motivated by an awareness raising process that has allowed them to see their structural barriers and identify the gaps and contradictions within an institutional framework. In the Manitoba case, the extent of changes achieved will depend on the conscientization process of social actors, and the complexities and resistances of the institutional framework. Aided by the consultation process, a few Board members at MCA were able to develop a vision, convince other Board members of its value, and pursue that vision. That vision was the engine behind the changes the institutional entrepreneurs pursued. As the initiatives yield positive results, the vision will likely be strengthened, which would further fuel the desire for change. In such a case, perhaps an education and awareness raising process may touch some co-ops that currently do not participate in the collective initiatives, and may influence them to see themselves as part of a movement. That, however, remains to be seen.

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Appendix 1

Question Template

The questions below are part of the semi-structured interview guide. Not all of the questions will be appropriate for every interview, nor is the list exhaustive given the semi-structured interview approach that would allow the interviewer to probe the themes in more depth. However, these questions are an approximate guide of the kind of questions that will be asked.

Pre-Interview Activities (Researcher)

- The researcher will provide the participant with an explanation regarding the objectives and scope of this research project.
- The researcher will provide the participant with a copy of the *Interview Consent Form* (appendix 2 or 3).
- The researcher will go over the interview guidelines emphasizing that the participant participation is confidential and that the participant may end the interview and cease participation at anytime.
- The researcher will inform the participant that voice recording is optional and that if the participant wishes, the digital recorder can be stopped at anytime.
- The researcher will explain her post-interview activities, including information on the transcription, the release of the transcript, and (public) dissemination of findings.

Interview Data Collection: History of Person and Organization

Questions will include the individual's personal experience and history concerning his or her relationship with the co-operative sector and an historical overview of his or her organization, its purpose and mandate. If relevant, basic socio-economic information may be asked including age, equity group status, education level, work experience, etc. Sample questions include:

- Tell me about yourself? [questions may be about educational level, work experience, depending on relevance]
- Tell me about this community? Is it part of a larger region? What are the boundaries of this region?
- How did you become involved with this organization and/or the broader co-operative movement?
- Tell me about the organization, what is its purpose? Its history? Movement participation?
- How important do you consider co-operative development in the current climate?

Key Themes

- What have been the various factors (leadership, government, socio-cultural conditions, movement, research, etc.) that contributed to the development of the co-operative sector?
- What are the public policies that have supported co-op development? And their impact on co-op growth?
- What tax and other financing policies enable co-operative development? How?
- What policies and other factors might be transferable to other contexts?
- What is the organization infrastructure that promotes co-operative development?
- What socio-cultural factors may have encouraged innovative policy and development?

Interview Data Collection: Policy environment for co-operative development

Questions will investigate a variety of topics regarding the participant's involvement with the co-operative movement and his or her respective co-operative enterprise. It will be the objective of the researcher to focus her questions on issues surrounding public policies, organizational infrastructure, and financial mechanisms to promote co-operative development.

Part One: Co-operative development and its determinants

1. What would you say have been the most important factors in developing the co-operative sector in your region, country?
2. Please, tell me briefly about the history of the co-operative sector in your region in the last 20-50 years.
3. What would you say have been the greatest obstacles to co-op development in your region? The greatest breakthroughs? Strengths? Weaknesses? Opportunities and threats?
4. Would you say that sector support organizations, public policy, education/technical assistance, and financing mechanisms are critical to develop the co-op movement? To what extent does each play a role?
5. How does co-operative development in your region compare with other regions?

Part Two: Public policies

1. What state policies (provincial and federal legislation, regulations, procurement, and government programs) are responsible for encouraging co-operative development?
2. What has been the impact of those public policies on co-operative sector and communities?
3. What role has tax legislation played in supporting or hindering co-operative development?
4. Is there any advantage for co-operatives coming from taxation? Any obstacle?
5. What do you think is the best way to encourage the co-op sector growth?

Part Three: Finance

1. Is capitalization one of the biggest challenges for co-op creation and expansion?
2. Do you know the financing mechanisms available for start-ups and expansion of existing co-ops? Loans, subsidies, patient capital, equity capital?
3. What are the main financial instruments/organizations available for co-ops?
4. Has the government or the co-op sector found a solution to capitalization?
5. What changes do you think are needed in co-operative financing?

Part Four: Organizational infrastructure

1. What role have co-operative organizations such as co-operative associations, federations, and confederations played in supporting the co-op sector? Are there any other organizations for example, credit unions, financial or insurance organizations, media, training and research centres, universities, etc?
2. What individuals or organizations have taken the lead in the development process?
3. What are the services that those organizations provide?
4. Please, describe in your opinion the most important services co-op members receive from co-operative federations (i.e. policy advocacy, technical assistance, research, education, access to credit, networks, alliances among co-ops, sector cohesion, etc).
5. What have been the biggest challenges to the creation of co-op organizational structures?
6. Why and how can those umbrella organizations be grown to deliver services to co-op members?

Part Five: Socio-cultural factors

1. What are the socio-cultural factors that encouraged innovative policies and development?
2. Why do you think that some societies tend to favour the co-op model more than others?
3. Why do you think the co-op model was able to capture the imagination of the first leaders of the co-op movement?
4. What social constructions or popular images (in the media, education, research, etc.) of the co-operative sector shape perceptions of and participation in the sector? Is it seen as vital and current or not? Inclusive or not? Socially responsible and sustainable or not?
5. How are the social constructions of policy makers embedded in policy and legislation?
6. Why did policy makers favour the co-op model vs. other business models?
7. Do you think the history, culture, and dominant ideology of a region/country shape the choices of policy makers about different business models?

Closing questions—

- Are there any questions I haven't asked but I should have?
- Do you have any questions of me?

Wrap up remarks

- Would you like a copy of the final study?
- Would you suggest any people to whom you think I should also speak on these issues?
- Would you be willing to pass on my contact information to these people?

Post-Interview Activities (Researcher)

- The researcher will ask the participant if there is any additional information that the participant would like to include in the official transcript.

- The researcher will inform the participant that the next step in the process will be the transcription of the voice recordings and that the researcher will contact the participant regarding transcript approval.
- The researcher will thank the participant for his or her participation.

Appendix 2

Interview Consent Form

You are invited to participate in a study entitled *Enabling Policy Environments for Co-operative Development: A Comparative Experience*. Please read this form carefully, and feel free to ask any questions you might have of me at adelermonica@gmail.com or of the research supervisor Dr. Isobel M. Findlay, Edwards School of Business, University of Saskatchewan at 966-2385 or Findlay@edwards.usask.ca.

Researcher: Monica Juarez Adeler
Centre for the Study of Co-operatives
University of Saskatchewan
101 Diefenbaker Place
Saskatoon, SK S7N 5B8
Tel: 204-788-0849; fax: 204-943-4695; e-mail: adelermonica@gmail.com

Purpose and procedure: I would like to receive your responses to some questions about your participation in co-operative development processes and co-operative sector infrastructure. The project will investigate the factors leading to the development of co-operative enterprise in Italy, Spain, Quebec and Manitoba with special emphasis on public policies, organizational structures, and financial mechanisms.

Questions may be posed about subjects such as your own involvement in the co-operative movement, your assessment of the problems and potentials of the movement and your view of success factors and constraints to co-operative development. The research is being coordinated under the supervision of Dr. Isobel M. Findlay, Edwards School of Business, University of Saskatchewan.

If you agree, this in-person interview will be digitally taped for transcription. Your participation is appreciated and completely voluntary. You may withdraw at any time should you feel uncomfortable or at risk. You may also decline to answer any particular question(s) or ask me to turn off the recording device. Should you choose to withdraw from the study, no data pertaining to your participation will be retained.

It is estimated that the participation time will be approximately 60 to 150 minutes.

Potential risks: Because I collect your consent and your personal identity information, there is some risk that your identity may not be entirely preserved. I will make every effort to preserve your confidentiality but you should be aware that controversial remarks, in the unlikely event they are associated with you, could have negative consequences for your relationships with others in your organization or co-operative community. I will try to ensure that your identity is protected in the ways described below. If for some reason I desire to quote you in a way that might reveal your identity, I will seek your permission beforehand.

Potential benefits: Your participation will help identify factors leading to co-operative development, and help inform guidelines and policy decisions both within the sector and government.

Storage of Data: The transcripts and original audio recording of the interview, if one is made, will be securely stored at the Centre for the Study of Co-operatives under the care and administration of the research supervisor Dr. Isobel M. Findlay for a period of at least five years.

Confidentiality and Data Release: Your interview will be transcribed directly by the researcher or by a transcriber who has signed a confidentiality agreement. After your interview, and before any data is included in a report, you will have an opportunity to review the transcript, and to add, alter, or delete information. Interview transcripts will be seen only by the project researcher or transcriber.

The research conclusions will be published in a variety of formats: conference presentations, publication in academic journals or popular press, or student theses. Data will be reported in a manner that protects participant confidentiality and anonymity. Participants will be identified without names, giving minimal information (for example, what region they are from) if relevant. Pseudonyms or composite profiles may be used. In principle, actual names will not be used; however, leaders speaking on behalf of an organization may be asked if certain comments can be attributed to them by name in publications. Any communication of these results that has clear potential to compromise your public anonymity will not proceed without your approval.

Right to Withdraw: Your participation is voluntary, and you may withdraw from the study for any reason, at any time, without penalty of any sort. If you choose to withdraw from the study, any data that you have contributed will be destroyed at your request. You will be informed of any major changes in the circumstances of this study that may affect your decision to participate.

Questions: If you have any questions about the study, please contact the research supervisor or researcher at the numbers provided. This study has been approved on ethical grounds by the University of Saskatchewan Behavioural Sciences Research Ethics board on _____. If you have any questions regarding your rights as a participant, please contact the Ethics Office (966-2084). Out of town participants may call collect. You will have access to published versions of the completed study. Please contact the researcher, Centre for the Study of Co-operatives at (306) 966-8509 or at (204) 788-0849.

Consent to Participate: I have read and understood the description; I have had an opportunity to ask questions and my questions have been answered satisfactorily. I consent to participate in the study, understanding that I may withdraw consent at any time. A copy of this consent form has been given to me for my records.

(Name of Participant – *please print*)

(Date)

(Signature of Participant)

(Signature of Researcher)

Appendix 3

Telephone and Email Consent Form

You are invited to participate in a study entitled *Enabling Policy Environments for Co-operative Development: A Comparative Experience*. Please read this form carefully, and feel free to ask any questions you might have of me or of the research supervisor Dr. Isobel M. Findlay, Edwards School of Business, University of Saskatchewan at 966-2385 or Findlay@edwards.usask.ca.

Researcher: Monica Juarez Adeler
Centre for the Study of Co-operatives
University of Saskatchewan
101 Diefenbaker Place
Saskatoon, SK S7N 5B8
Tel: 204-788-0849; fax: 204-943-4695; e-mail: adelermonica@gmail.com

Purpose and procedure: I would like to receive your responses to some questions about your participation in co-operative development processes and co-operative sector infrastructure. The research coordinated under the supervision of Dr. Isobel M. Findlay, Edwards School of Business, University of Saskatchewan, will investigate the factors leading to the development of co-operative enterprise in Italy, Spain, Quebec and Manitoba with special emphasis on public policies, organizational structures, and financial mechanisms.

Questions may be posed about subjects such as your own involvement in the co-operative movement, your assessment of the problems and potentials of the movement and your view of success factors and constraints to co-operative development.

This information will be gathered through an e-mail or a telephone interview (which may be digitally taped for transcription) if you agree. Your participation is appreciated and completely voluntary. You may withdraw at any time should you feel uncomfortable or at risk. You may also decline to answer particular question(s) or ask me to turn off the recording device. Should you choose to withdraw from the study, no data pertaining to your participation will be retained. It is estimated that the participation time will be approximately 60 to 150 minutes.

Potential risks: Because I collect your consent and your personal identity information, there is some risk that your identity may not be entirely preserved. I will make every effort to preserve your confidentiality but you should be aware that controversial remarks, in the unlikely event they are associated with you, could have negative consequences for your relationships with others in your organization or co-operative community. I will try to ensure that your identity is protected in the ways described below. If for some reason I desire to quote you in a way that might reveal your identity, I will seek your permission beforehand.

Potential benefits: Your participation will help identify factors leading to co-operative development, and help inform guidelines and policy decisions both within the sector and government.

Storage of Data: The transcripts, e-mails, and/or original digital recording of the interview, if one is made, will be securely stored at the Centre for the Study of Co-operatives under the care and administration of the research supervisor Dr. Isobel M. Findlay for a period of at least five years.

Confidentiality and Data Release: If taking part in a telephone interview, your interview will be transcribed directly by the researcher or by a transcriber who has signed a confidentiality agreement. After your interview, and before any data is included in a final report, you will be given the opportunity to review the transcript of your interview, and to add, alter, or delete information from the transcripts or e-mail as you see fit. Interview transcripts and e-mails will be seen only by the researchers connected with this project.

The research conclusions will be published in a variety of formats: conference presentations, publication in academic journals or popular press, or student theses. Data will be reported in a manner that protects participant confidentiality and anonymity. Participants will be identified without names, giving minimal information (for example, what region they are from) if relevant. Pseudonyms or composite profiles may be used. In principle, actual names will not be used; however, leaders speaking on behalf of an organization may be asked if certain comments can be attributed to them by name in publications. Any communication of these results that has clear potential to compromise your public anonymity will not proceed without your approval.

Right to Withdraw: Your participation is voluntary, and you may withdraw from the study for any reason, at any time, without penalty of any sort. If you choose to withdraw from the study, any data that you have contributed will be destroyed at your request. You will be informed of any major changes that occur in the circumstances of this study or in the purpose and design of the research that may influence your decision to remain as a participant.

Questions: If you have any questions concerning the study, please feel free to ask at any point; you are also free to contact the researcher supervisor or researcher at the numbers provided above. This study has been approved on ethical grounds by the University of Saskatchewan Behavioural Sciences Research Ethics board on _____. If you have questions about your rights as a participant, please contact the Ethics Office (966-2084). Out of town participants may call collect. You will have access to published versions of the completed study. Please contact the researcher, Centre for the Study of Co-operatives at (306) 966-8509 or at (204) 788-0849.

Consent to Participate: I have read and understood the descriptions provided; I have had an opportunity to ask questions and my questions have been answered satisfactorily. I consent to participate in the study described above, understanding that I may withdraw this consent at any time. A copy of this consent form has been given to me for my records.

(Name of Participant – *please print*)

(Date)

(Signature of Participant)

(Signature of Researcher)

Appendix 4 Transcript Release Form

Project name: Enabling Policy Environments for Co-operative Development: A Comparative Experience.

I, _____, have reviewed the complete transcript of my personal, telephone, or e-mail interview response in this study, and have been provided with the opportunity to add, alter, and delete information from the transcript as appropriate. I acknowledge that the transcript accurately reflects what I said in my personal interview. I hereby authorize the release of this transcript to the researcher and the Centre for the Study of Co-operatives, University of Saskatchewan, to be used in the manner described in the *Interview Consent Form (Appendix 1 or 2)* or the manner indicated below. I have received a copy of this Transcript Release Form for my own records.

If you do not check one of the following, it will be assumed that (a) applies:

_____ (a) I prefer to remain anonymous, as described in the consent form. I understand that my remarks will not be attributed to me by name. Instead, they may be attributed to an unnamed individual (an employee, a member, a manager, a Saskatchewan person, a man or woman, etc.) or to a pseudonym or a composite profile.

_____ (b) The remarks contained in the authorized transcript may be attributed to me by name, or used anonymously, at the author's discretion.

_____ (c) I prefer to have all remarks from the authorized transcript attributed to me by name if they are used.

_____ (d) Certain remarks I have indicated by initials in the margin are to be kept anonymous as in (a) above; the rest of my comments (unmarked in the margins) may be attributed to me.

(Name of Participant – *please print*)

(Date)

(Signature of Participant)

(Signature of Researcher)

Appendix 5

Mondragon Co-operative Support Organizations

Mondragon University and school co-operatives

Learning from Arizmendi's goal of "socializing knowledge in order to democratise power" through education and its popular access to provide equal opportunities (Ormaechea, 1993, p.35), Mondragon identified education as a key component of supportive co-operative infrastructure. As we have seen in chapter 3, as soon as Don Jose Maria arrived to Mondragon in 1941, he started working towards the foundation of a technical school to provide youth with an apprenticeship. This goal he achieved in 1943 with the creation of the Eskola Politeknikoa or Polytechnic School. In 1948 he started the League of Education and Culture, a non-profit organization to promote and coordinate education at all levels for children and adults (Ormaechea, 1993). Those two organizations were decisive in "consciousness-raising" resulting in the first industrial worker co-op, Ulgor, in 1956 (Mathews, 1999, p.211). The League of Education and Culture turned into a co-op in the 1960s, was formed by teachers, parents, students, and townspeople, and became part of the Mondragon Group (Ormaechea, 1993). The League of Education and Culture transformed into Hezibide Elkarte, an umbrella organization within the Mondragon Group whose purpose is to "plan, coordinate and promote educational activities in the Alto Deba area" (Ormaechea, 1993, p.36). These activities cover the university, the Iraunkor centre for continuing education and in-company training, the Ahizke-CIM centre for language studies, the Otalora centre for co-operative research and management training, Basque schools, nursery schools, and kindergartens (Ormaechea, 1993).

Following Father Arizmendi's vision of emphasizing education for human development and for co-operatives, the Mondragon Group created Mondragon Unibertsitatea (Mondragon University) in 1997. As a co-operative, it was declared a non-profit University of common public interest by the Spanish Ministry of Education. The University has about 4,000 students and offers 22 degree courses at the undergraduate and graduate level (Mondragon University, 2008). The University was created as a co-operative through the amalgamation of three educational co-operatives that now constitute the University's Vocational School or Faculty of Engineering (formerly the Polytechnic School), Faculty of Business Studies (1960), and Faculty of Humanities and Education (formed as a co-operative in 1997). The League of Education and Culture created the Teacher Training College of Eskoriatza in 1976 (it became a co-operative in 1980) out of a need for professional high-school teachers who spoke the Basque language (Mondragon University, 2012). Following the flexibility of the multistakeholder model first used by the credit union, the university incorporated three types of membership: the Mondragon co-ops, the students, and the staff. Three different types of membership as the structure of the university is another novel concept, fruit of the institutional creativity and innovation characteristic of the Mondragon group. Different types of membership allow for a more balanced representation of different interests in the governance of the university. Although Arizmendi galvanized the creation of the educational institutions, the town's residents took ownership of the projects as part of a community development process at the foundation of co-operative development.

The university's membership in the Mondragon Group permitted one more innovative solution to external constraints: a situation where schools received minimal funds from government.

Students developed close ties and enhanced their skills through employment experience in co-operatives. They even enjoy a co-operative of their own inside the university: *Actividad Laboral Escolar Cooperativa (Alecop)* or School Labour Activity Co-op allowing students to work part-time in industrial development projects. The venture started in 1966 as an idea of Arizmendi to facilitate work experience for students while helping them finance their studies and living expenses (Mathews, 1999). Initially a department of the Polytechnic School, in 1976 it became financially sustainable and incorporated as a co-op (Ormaechea, 1993). By 1999, the co-op had about 600 members (Mathews, 1999). The enterprise develops electrical parts for household appliances, electrical components of vehicles, and teaching equipment for technical education, and gives training in business management and social participation by learning as worker-owners interacting with other peers in a values-based working environment (interviewee Jose Ramon Elortza). It also has a service of "lending out workers to other co-ops," which furthers the links and worker mobility among the co-ops (Jose Ramon Elortza). Consistent with the Mondragon co-operative development strategy, a new idea is developed and tested in a division or department of an existing organization and hived off once it becomes independent.

Arizmendi was convinced that immersing industrial enterprises in research and education-rich environments was necessary for co-operative development and growth. In this way, education and research promoted not only human development but also technological innovation that could be applied to further develop products and services. Alecop forms young people in a work environment where co-op values and principles shape the role of a co-op member and collective approaches to decision-making to reduce co-op failures due to the lack of education on co-op values, collective decision-making, member ownership, and democracy.

Once the country reorganized democratically after Franco's death in 1975, the regions started funding all levels of educational institutions. The Basque government required that schools receiving public funding adapt their curricula to the official public system. Eighty percent of the Mondragon school co-ops (including the colleges) voted against the request, and rejected the public funding, choosing to remain independent in 1993 (Mathews, 1999). That move was possible because the educational co-ops enjoyed the financial support of the Mondragon Group (partially from the legally mandatory education and promotion fund binding all co-ops in Spain). For example, in 2008 the Group dedicated 10.4 million euros to projects of training and education of the membership channeled into higher education, professional training, and general education, and 7.8 million euros to research and development projects (MCC, 2008). Their commitment to autonomy and self-help as well as the spirit of solidarity was present in their decision to reject the government funding.

Linking enterprises, credit union, university, research centres and educational co-ops into one group, Mondragon has achieved economies of scale, and has created close relationships among individuals and organizations resulting in a more successful or productive unity that addresses co-operative development barriers. Beyond effective techniques or recipes to tackle development successfully, we should notice that those development components are not independent from the socio-cultural context. The values and beliefs of this particular community acted as the engine of the co-operative experience and held the development pieces together.

Interviewees Zorione Arregi and Jose Ramon Elortza commented on the challenge of trying to excite young people about co-operative entrepreneurship. Fred Freundlich, professor at the Business School of the Mondragon University, said that in the seven towns of the Alto Deba valley where Mondragon is located, 60 percent of employment is in the co-operatives, which make up a total of 4 percent of the Basque country's GDP and 8 percent of its industrial production. Most people in the region have worked in a co-operative or a family member has or they are closely connected to co-operatives and for that reason, co-operatives have become the norm or the mainstream economic model, and are not seen as the exciting alternative that fuels activism. That ironic reversal of fortune has an influence on younger people, who are more likely to engage in protests around social issues such as Basque nationalism and independence. According to interviewees Arregi and Elortza, the university of Mondragon and MCC are working with youth to show them that co-operatives are a field of activism as well, but this has not yet translated into a formal youth plan. These comments tie into the motivation issue mature co-operatives face, one that further complicates the principal-agent dilemma. The circumstances and needs that created the co-operatives in the first place may be different than the motivations of current members, which may lead them to understand the co-op's main objective as the provision of goods and services forgetting the social objectives co-operatives fulfill (Fulton & Laycock, 1990). This distortion can denaturalize the co-op and render it dysfunctional. Whether MCC is able to successfully address these concerns or not remains to be seen.

Lagun-Aro: the social security co-operative

Addressing the social needs of workers, Lagun-Aro began operating in 1967 as a department of the Caja—the “Social Insurance Division”—in the absence of government social security programming. When the first co-operative, Ulgor, incorporated as a worker co-operative in 1959, its workers considered to be self-employed were therefore ineligible for government social security, placing a burden on the recently formed credit union which had to provide insurance for retirements, sickness leaves, widower's pension, health, worker's compensation and unemployment. Originally, the division was established as a fund to which associated co-operatives would contribute their payroll deductions assigning money to it so benefits for the co-op members could be claimed (Mathews, 1999). The Division of the credit union grew to the point of hiving off a separate co-operative entity, Lagun-Aro, with a Board of Directors or Governing Council including representatives of the co-operatives associated with the Mondragon Group to ensure close ties among the co-ops. The Board composition followed the same formula as the credit union. In terms of addressing the social needs of the members in a spirit of solidarity, Jesus Goinetxe, former CEO of Lagun-Aro, explains, "Besides the personal deduction to the salary of every member to cover social security, we instituted a 'solidarity premium', which was designed to alleviate the situation of those members with larger families, and propensity to sickness who tended to have more expenses; and in case of widowhood, besides its compensation, the widow would be offered a job in any co-operative of the group to help the surviving spouse and family".

In 1988, the Basque government provided universal health care and pension benefits. The health clinic established by the co-operatives and overseen by Lagun-Aro was then taken over by the Basque government “as a model for other towns in the province” (Mathews, 1999, p.210). Since 1988, Lagun-Aro has contracted out the pensions' function to a government fund, Mutualidad de

Autonomos. As of December, 2010, Lagun-Aro had a 4.47 billion euros endowment fund and insured 29,973 people in 146 co-operatives (MCC annual report, 2010). Although the state has assumed some of the services Lagun-Aro used to provide to members, Lagun-Aro complements state-run social welfare and has diversified its services to other areas such as life insurance and general insurance services (Mathews, 1999; Morrison, 1991). New insurance companies started as needs arose, all of which form the Lagun-Aro Group: Seguros Lagun Aro, a general insurance subsidiary; Seguros Lagun Aro Vida, a life insurance subsidiary; Aroleasing and Arofinance, subsidiaries for leasing and consumer finance; and Lagun-Aro Intercoop, a subsidiary for shopping malls development (Mathews, 1999).

Ikerlan: research and development co-operative

Founded in 1974, Ikerlan was hived off the Mondragon Polytechnical College as a support co-operative specializing in modern technologies. Arizmendi's insistence that human and social development would be made possible by "mastering technology" led the co-operatives to pursue their own research and development centres (Mathew, 1999, p.213). According to Jose Ramon Elortza, "the financial independence achieved with the credit union made us think about a certain degree of autarky in technological matters, plus the high need of the industrial co-ops to invest in technology led us to start Ikerlan, a centre of research and development". "The products manufactured by the co-ops", Elortza explains, "required foreign licenses or patents for their use, which was taking a considerable cut of the profits, so it was important that we developed our own products that could give a competitive edge to the co-ops". Staying true to the employment creation policy that "any potential product researched at Ikerlan, had to be carefully thought to be applied and developed in the co-ops, and had to be labour intensive; otherwise, it would not be undertaken" (Jose Ramon Elortza).

As in the case of Lagun-Aro and other support co-operatives, Ikerlan's General Assembly is made of its worker-owners and the associated co-operatives (Mathews, 1999). The research focuses on three major areas: "electronics; computer-assigned design and manufacturing" for robotics and advance automation; "energy systems and renewable energy sources" (Mathews, 1999, p.213-214; Ormaechea, 1993). Ikerlan takes up contracts to research and develop high technology for the co-operatives associated with the Mondragon Group, the Basque government, and private businesses not in competition with the co-ops. Ikerlan has participated in international projects under the sponsorship of the European Union including the "Biospace Separation Spacelab experiment (purification of proteins under microgravity conditions)" together with NASA (Mathews, 1999, p.213). In December, 2008, Ikerlan produced revenue of 18.32 million euros, "of which 7 million corresponded to generic and strategic research projects funded by the Basque, Spanish and European governments; and 11.32 million to R&D projects contracted by companies" (MCC annual report, 2008, p.33). Currently, it has about 266 researchers and technicians. "The birth of Ikerlan came out of a need to create a research centre that would become the engine of the future technological development. As the credit union was our financial engine and strategic backbone, Ikerlan became our technological engine" (Jose Ramon Elortza).

Saiolan

Saiolan assumed in 1985, in part, the task of the Business Division of Caja Laboral in the early days acting as a business incubator specializing in the creation of new ventures using high technology. The centre was a department of the Polytechnic School and hived off as an independent organization in 1985 as a result of the Mondragon co-operatives' efforts to tackle the acute unemployment among youth in the early 1980s (interviewee Jose Ramon Elortza). After a year, the Centre spawned two new ventures, Lantek (specializing in technical software), and Diara (industrial design) (Saiolan, 2011). The funding for the Centre comes from the associated co-operatives and the government as well as from consulting contracts with local businesses.

The embedding of enterprise in research-rich environments is a key strategy for successful co-operative development. The centre actively recruits young entrepreneurs from university and the co-operatives who receive for two years training in modern technologies applied to businesses. Saiolan offers entrepreneur scholarships for which applicants compete every year. For example, in 1996, 300 applications were received but only 12 scholarships were granted (MacLeod, 1997, p.48). At the end of the program, promoters have to present their projects to the credit union for financing "at a reduced interest rate of up to \$100,000 per project" (MacLeod, 1997, p. 49). The co-operative spawns an average of two to three new ventures every year (MacLeod, 1997). Since 2005, Saiolan's 35 researchers share a building space in the Garaia Innovation Pole with the Business Innovation Centre, a research centre, which allows for easier networking and knowledge exchange (MCC annual report, 2010).

Mondragon Technological Centres

Over the years the Mondragon Group has created several cutting-edge technological centres besides Ikerlan and Saiolan to develop better products and services to serve the co-operatives and create a competitive advantage for them. For example, ETIC-Embedded Technologies Innovation Centre was set up in 2008, in order to provide training, advice, and project development in the field of embedded technologies. Currently, ETIC is working on a project with Microsoft to develop embedded systems, which have applications in the home, health, industrial automation, energy, transport, etc. (MCC annual report, 2010, p.37).

Mondragon Technological Centres 2010

Name	Budget (million euros)	Workforce
Aotek	2.5	31
C.S.Centro Stirling	0.6	8
Edertek	4.1	32
Etic	0.6	10
Hometek	3.5	39
Ideko	7.6	101
Ikerlan	20.2	266
Isea	1.1	11
Koniker	1.9	27
Lortek	3.2	42
MIK	2	25
MTC	7	105
Orona EIC	2.5	53
UPTC	2.3	38
Total	59.1	788

Source: Annual Report of Mondragon Corporacion Cooperativa (2010, p. 39).

This table shows the number of research centres the group has created, and their relevance in terms of budget and workforce, powerful symbols of the Mondragon commitment to co-op development through research and innovation. Altogether, the research centres, the university, and the industrial co-ops dedicated exclusively 1,293 people to research and development, and 144 million euros in 2010 (MCC annual report, 2010). It is important to note that during Franco's regime, the existing research and innovation centres did not receive government funding. Since the country reorganized after his death in 1975, municipal, Basque, Spanish and European funding has heavily helped the development of research projects in these research and innovation centres. That suggests that government support for co-op development is an important aspect that should not be overlooked.

According to interviewee Zorione Arregi, the head of the legal department of MCC, two new organizations to create and support co-operatives were developed at MCC in 2008. Promo Koop was constituted thanks to the Confederation of Basque Co-ops and Mondragon to start new co-ops and help small existing co-ops to provide social and health care services to the community following the demand in the region. The funding for this organization was arranged through agreements between Mondragon co-ops and Promo Koop as the co-ops were willing to contribute both a portion of the Co-op Education and Promotion Fund and the know-how of Mondragon experts. Key informant Zorione Arregi points out that the first two years have not been favourable due to the economic crisis so Promo Koop has not received yet the financing it was expecting. The second organization is the Centre of Promotion of Co-operatives created within the Mondragon Group to explore new sectors of the economy where new activities or services could start. The initial business plan explored what new sectors of the economy

Mondragon should pursue in the next 10 years to start new co-ops in those fields, for instance, home care for seniors and for people with disabilities, and health care services.

Appendix 6

Spanish and Basque Public Policies to Support Co-op Development

The Exposition of Motives of the Law 27/1999 registers that "the constitution mandates the support and promotion of co-operatives through adequate legislation." The Exposition of Motives continues by acknowledging that "the promotion of co-operativism ... is compatible with the requirements of profitability and competitiveness proper to the most developed economies and with the values that have shaped co-operatives for more than hundred and fifty years." In this way, the law acknowledges the dual socio-economic nature of co-operatives as its Exposition of Motives states: "the ethical values that give life to the co-op principles formulated by the International Co-operative Alliance, especially those that incarnate solidarity, democracy, equality and social vocation, have a place in this law as it acknowledges them as indispensable elements to build a viable enterprise that meets the members' identity." The law aims to level the playing field for co-operatives to compete successfully in the market: "the elements of a co-operative can live in harmony with the demands of the market.... the objective of the law is that the values incarnated in the historic figure of the co-operativism, a response of the civil society to constant new economic conditions, be compatible and keep an adequate balance with the ultimate goal of the members, which is the profitability and the success of the entrepreneurial project". Although this law views co-operatives as deserving of support to develop fully and properly, it does not challenge the dominance of market rationality. Rather the norm aims to build the supports for co-operatives to better prepare them to compete in the market on fairer terms.

Article 1 defines a co-operative and explicitly establishes that a co-operative must follow the definition and principles of the International Co-operative Alliance (ICA). Any licit economic activity can be organized and developed under the form of a co-operative. The minimum number of members to create a co-operative is three members, and second tier co-ops can be created with a minimum of two co-operatives. The reduced number of members to constitute a co-op concedes more flexibility than in cases of a greater number and has the potential to be more productive of co-op development.

Lezamiz highlights the principle of solidarity embedded in the Mondragon policy of profit distribution (net profits of each co-op after taxes) in this way:

- 10% Fund of Education (Law mandates 10%)
- 45% Reserve Fund of Co-op or indivisible reserves (Law mandates 20%)
- 45% Returns to workers' individual capital accounts to capitalize receiving an annual interest of 7,5% in cash

Since the beginning, Mondragon has had a strong policy of capitalizing and strengthening the co-ops with the view of long-term sustainability at its core. Since the beginning, worker-owners have agreed to "save today to have co-op employment for our children and grandchildren" policy, says Mikel Lezamiz. The legal concept of the indivisible reserves committed to a collective property framework versus an individualistic one also prevents individual members from pocketing the co-op's assets if the business is dissolved.

This collective property framework and the individualized capital accounts crafted for the Mondragon co-ops allowed for the pursuit of individual goals as well as collective ones addresses partially the principal-agent dilemma. As mentioned in chapter 1, the principal-agent dilemma affects all co-operatives since members' (principals) wishes and needs may not be satisfied by their hired managers (agents) because those may undertake actions that are not in the principals' best interests (Fulton & Laycock, 1990). For instance, managers and employees may pursue good salaries, job security, promotions, etc., which may be in conflict with the member-owner goals (Fulton & Laycock, 1990). The principal-agent dilemma can lead to serious member conflicts, which may render the co-operative dysfunctional and eventually, cause it to disappear. Arizmendiarieta designed the individual capital accounts that every worker-member owns in the co-op. Out of the 45 percent of the co-op's net profits destined for the workers, part goes to salaries and part is assigned to the individual accounts, which remain in the credit union, Caja Laboral, until the member leaves or retires and is also earning interest every year. Interviewee Mikel Lezamiz mentioned that "depending on the number of years a member has worked in the co-op, the amount can be significant; for example, a member who has worked for 30 or 40 years could pull \$250,000 out of his/her account at retirement, which is an enormous incentive for members to stay in the co-op until retirement." It also creates the incentive for the member to work for the success of the organization, thus aligning the interest of the individual member with the interests of the organization. However, this provision can also create disincentives for the workers to join as members because they do not receive immediately the full extra remuneration from the co-op's net profits, and they have wait until retirement to receive full payment. Despite the downsides, Arizmendi is deemed to have designed in the Mondragon policy a somewhat adequate balance between the interest of the co-op and the interest of the individual member, thus intending to negotiate the agency dilemma (Mathews, 1999). Indeed, this internal policy mechanism to address the agency problem teaches an important lesson for co-operative development.

The education and promotion fund is relatively flexible in its use and covers support of community schools, member education and development, and environmental initiatives (MacLeod, 1997). Although each individual co-op manages its own fund, the Mondragon co-operatives decided to pool that money and spend it in through their joint Co-operative Education and Promotion Fund, explains Zorione Arregi. In 2008 the Mondragon Fund reached 35.3 million euros, or 142 million euros over a four-year period 2005-2008 (MCC, 2008, p. 54). In the last year for which such data is available, the Mondragon annual report (2008) details how its co-op education and promotion fund has been spent in the year 2008:

- Projects in training and education of the membership: 10.4 million euros, channeled into higher education, professional training and general education.
- Promoting cultural activities: 2.2 million euros.
- Research and development projects: 7.8 million euros.
- Promoting the use of the Basque language and other minority languages: 1.7 million euros.
- Care schemes (programmes in support of the disabled, caring for the elderly, reinsertion of substance abusers, etc.) and support for the activities of NGOs and development

projects in emerging economies or third world countries: 6.3 million euros.

- Other activities: 6.9 million euros (MCC, 2008)

As a priority, Mondragon addresses one of the co-op development obstacles, the lack of education and technical training of members, managers, and board members. And it also chooses to dedicate funds for cultural activities and concern for the community locally and abroad (Third World countries).

Tax advantages for co-operatives

The Federal Tax Act for Co-operatives 20/1990 in its "Exposition of Motives" explains the need for a special tax law for co-operatives:

in continuation with a tradition of the tax law, under which the cooperative societies have always been given special attention by the policy maker, who, conscious of their special features as associative entities and their social role, have historically recognized certain tax benefits, a tradition that, ultimately, is consistent with the mandate to government, contained in paragraph 2 of Article 129 of the Constitution, to promote, through appropriate legislation cooperative societies.

In its article 1 the law praises the essence of co-operatives: "in consideration of the co-operatives' social function, features and activities, the present law regulates the fiscal duties of co-operatives" with exception of the tax laws of the historical regions of Basque Country and Navarra which have competence to pass their own fiscal laws (art. 1).

The Exposition of Motives acknowledges the potential of co-operatives to solve the tension between capital and labour, and "establishes fiscal benefits for them due to their social function since they facilitate workers access to the means of production and promote the formation of people through the investments of the members with that goal." This precept assigns value to worker ownership of the means of production and tries to resolve the traditional conflict between labour and capital using the co-operative model. In granting benefits, the law shows a deep understanding of the co-operative model as a community-based socio-economic organization empowering workers. In part, it acknowledges the Mondragon co-ops' contribution to legal innovation with implications beyond themselves incorporating the first worker co-operative in the country.

With the object of establishing fiscal benefits for co-ops, the law declares all of the different types of co-operatives as "fiscally protected" (art. 6). Then the law differentiates them in this way: "Co-operatives fiscally protected are classified into two groups: 1) protected co-operatives and 2) specially protected co-operatives" (art. 2). The first group comprises all co-operatives constituted as such under the Federal Co-operatives Act unless they have lost their status of co-operatives due to a sanction (art. 6). The norm considers the co-operative status as a privilege with certain tax benefits, which means that in case of sanctions due to failure to comply with the indivisible reserves and/or the education and promotion fund obligations, for instance, the co-op status will be lost. The second group or specially protected co-ops are detailed in the article 7: worker co-ops, agricultural co-ops, community exploitation of land co-ops (its members have the rights of use and usufruct of land, not the property of land, with the purpose of an agricultural exploitation), fishery co-ops, consumer co-ops, and second or further tier co-ops whose members

are the previously listed types of co-ops. The types considered "protected" are credit unions, housing co-ops, insurance co-ops, service co-ops, school co-ops, transport co-ops, and health co-ops. Using the term "protected" in the discourse highlights the importance the law assigns to co-operatives—a measure of the success in educating policy makers on co-ops' relevance for communities, and on the need to level the playing field with private businesses, which is one of the goals of the International Year of Co-ops 2012 as declared by the United Nations.

The law introduces the distinction between income coming from co-operative activities and non-co-operative activities. To determine the taxable base, "co-operative and extra-co-operative results" will be considered separately (art. 16). The following article (17) explains what the law considers as "co-operative result" to determine taxable income; all the activities the co-operative carries out with its own members, the fees paid by members, subsidies the co-operative receives, and interests and incomes generated by the capital deposited by its members. Deductible expenses are, among others, the amounts the co-operative allocates with mandatory character to the education and promotion fund, but those should not exceed 30 percent of the net surplus of the co-op each financial year (art. 18-19). The "extra-co-operative results" are all the activities the co-operative carries out with non-members generating revenue for the co-op, profits out of investments or financial participations in non co-operative businesses; and the economic activities or income obtained from sources unconnected or strange to the specific purposes of the co-operative. (art. 21). The article 33.2 details the benefits protected co-ops receive on the corporate income tax applying the following tax rates:

- a) to the co-operative results the tax rate will be 20 percent.
- b) to the extra co-operative results will apply the standard rate of 30 percent that private businesses pay.

Credit unions are considered protected co-ops but their tax rate is slightly higher: 26 percent of the co-operative results and 30 percent of the extra co-operative results (art. 39-40). It is interesting to note that the norm makes the distinction between co-operative results and extra co-operative results following the social purpose assigned to these organizations. That means, if the co-op behaves according to its social purpose, the income generated is a co-operative result and taxed to a lesser degree; if it doesn't, its income is considered an extra co-operative result and taxed more. The rationale for the disposition is based on the law's understanding of the social purpose of the co-operative model. Protected co-ops are exempt from the property transfer tax, the legal acts tax, and 95 percent of the economic activity tax, and property tax that agricultural co-ops and community exploitation of land co-ops pay for real estate (art. 33.1, 4). The last two taxes are collected by municipalities so the federal government commits to reimburse them with the shortfall (art. 33.4).

In the case of specially protected co-ops, article 34 of the federal act establishes that all the benefits included in the previous article for protected co-ops apply to them plus a discount of 50 percent of the corporate income tax rate for protected co-ops, which means that the final rate for specially protected co-ops is 10 percent. This is a significant advantage when considering that the standard rate private businesses contribute is 30 percent. The reduced tax rate helps co-ops address one of the barriers to co-op development: capitalization.

The Basque Country and Navarra were the only states or regions of Spain that were given autonomy to regulate themselves in fiscal matters. Each Basque Country province has its own tax act for co-operatives but they are all very similar, explains Arregi. Mondragon is situated in the Basque province of Guipuzkoa and for that reason, the Guipuzkoa Co-operative Tax Act 2/1997 will be explored.

The Guipuzkoa Co-op Tax Act 2/1997 differs from the Federal Co-op Tax Act 20/1990 in that it does not distinguish co-operatives and extra co-operative results. The reason is that the Mondragon Group participated actively in crafting the Guipuzkoa Act and had considerable influence in convincing the legislators of the complexities required to do separate accounting for co-operative results and for extra co-operative results, according to Arregi. This is a clear example of co-construction of policy (Vaillancourt, 2008) as social actors benefiting from the education process that is the hallmark of Mondragon worked together with policy makers to craft tax legislation in tune with the needs of the co-op sector.

The preamble of this Act states the intention of respecting co-operative principles, and at the same time the Act aims at incorporating innovative tools that allow cooperatives to continue to compete and expand in a market as difficult and changing as the current one:

Given the qualitative and quantitative importance that co-operatives have throughout the Basque Country and more specifically in the Province of Gipuzkoa it was necessary to prepare a Regional Standard governing its tax system.... And this need is justified on the very reality of the co-operative movement in general, with its beneficial social and economic effects for society at large that made appropriate such regulation. (preamble of the Act)

The Act incorporates co-operative discourse and acknowledges the role and value of co-operatives for community development predisposing the policy maker to pass favourable legislation to grow the co-op sector. The Preamble further explains why such fiscal legislation is necessary: "the need for this norm is also justified in the diversity of the Basque co-op movement, from the many small co-operatives but no less important, to the large business group, a model of development and leader of co-operativism at the international level." A sense of pride for being home to an international model of co-operativism is clear in crafting this tax norm.

For the effects of this Act (art. 2), co-operatives are classified in two groups: "fiscally protected co-operatives and not protected co-operatives." The first group is divided between "protected co-operatives and specially protected co-ops." All the co-operatives incorporated under the Basque Co-operatives Act 4/1993 will be considered "protected co-ops" (art. 4). Specially protected co-ops enjoying all the benefits described in this act includes worker co-ops, agricultural co-ops, community exploitation of land co-ops (its members have the rights of use and usufruct of land, not the property of land, with the purpose of an agricultural exploitation), consumer co-ops, school co-ops and second or further tier co-ops whose members are the previously listed types of co-ops (art. 5). The unprotected co-ops are those which have lost tax protected status detailed in this Act, which means that the co-operative loses the fiscal advantages assigned to the protected and specially protected co-ops having to pay the general tax rate for investor-owned firms (art. 11-13). A co-operative will lose its status if it has failed to assign monies to its indivisible reserves or reserve fund, and to its education and promotion fund, if it has distributed among the members the indivisible reserves, if it participates more than 25 percent in non co-operative

entities, and if it fails to comply with the law or the by-laws in any way (art.12). It is worth highlighting that the causes for loss of the co-op status are basically any behaviour of the organization strange to its social purpose, which means that the policy maker understood that co-operatives are principle-based organizations that ought to behave in such a way. Once they do not behave as co-operatives, they should be treated as private businesses or other types or organizations, and pay a different tax rate accordingly.

In determining the tax base, deductible expenses are 50 percent of the amount the co-op assigns to the indivisible reserves, the wages paid to worker-owners, 100 percent of the amount destined to the co-op education and promotion fund, the interest earned by the members for their contributions to the capital of the co-op, and any donation to co-op promotion organizations and co-operation entities (art. 14). To avoid double taxation, the act allows the members of a protected co-op to deduct 10 percent of the personal income earned in their personal tax declarations, and 5 percent in the case of members of a specially protected co-op (art. 25).

The corporate income tax rate for protected co-ops is 20 percent (art. 26). The Act explains that if a co-op suffers sanctions due to failure to comply with the law or its by-laws, it will pay 30 percent income tax, the same as the standard investor-owned firms. However, small-size protected co-ops will have a reduction in the rate to 19 percent (art. 26.2). Credit co-operatives or credit unions are considered protected co-ops under the act but their rate is slightly higher, 28 percent (art. 33).

The corporate income tax for specially protected co-ops is half of the rate the protected co-ops pay, which is 10 percent (art. 27). Half of the rate specially protected co-ops pay, 5 percent, will be the rate for agricultural co-ops to help them modernize their agricultural production (art. 27.2). Second and further tier co-ops will enjoy the rate of the protected co-ops unless they were composed by specially protected co-ops in which case, that will be the rate applied to them (art. 28). This article affects the Mondragon Group which is a third tier co-op comprising second tier co-ops and individual co-ops, considered specially protected co-ops under the law.

Municipalities are permitted to reduce property taxes, economic activity taxes and transmission of property/assets taxes for co-operatives since they have the authority to regulate these taxes (art. 26.4). Therefore, depending on the Municipality there will be tax advantages for co-ops, too. “In the municipality of Mondragon, all co-ops have some benefits in the transmission of assets tax, and the agricultural co-ops have discounts on the property taxes,” explains Zorione Arregi.

When asked about future trends in legislation, Arregi explained that “it is much easier to convince policy makers about the need to support small-medium size co-ops than larger ones as it is the case of the Mondragon group”. Future legislative changes may not always be so favourable to large co-ops, she said. In times of crisis, the government looks at how much revenue it gives up to larger co-ops, and may be increasingly prone to cut some of the tax advantages for large co-ops in the future. That is a potential challenge that will have to be addressed if there are legislative changes.

Hybrid co-operative forms: Mixed Co-op and Anonymous Labour Society

In a mixed co-operative, only fifty-one percent of the votes and shares belong to worker-members, and forty-nine percent of the votes and shares are owned by outside investors who are not members (art. 136). In these cooperatives, "the right to vote in the General Assembly shall respect the following pattern":

- a) At least fifty-one percent of the votes are allocated in the ratio defining the Statute, to co-op members.
- b) A maximum quota, to be determined by statute, of forty-nine percent of the votes are distributed among partners with right to vote, and if the statutes so provide, may be freely marketable" (art. 136.2).

The distribution of profits follows that voting formula: shareholders profits will be distributed among them in proportion to the capital invested, and co-op members' profits will be distributed among them according to the general criteria for co-operatives (art. 136.4). This new co-op model allows for worker ownership and control of the business while benefiting from outside capital, especially needed in hard economic times.

The mixed co-op, explained key informants Pedro Mendieta, Jesus Goienetxe, and Zorione Arregi, was a legal entity devised by Mondragon legal experts advising the Executive Council of Co-ops of the Basque Country as a temporary solution to the economic crisis of the 80s. The economic downturn made it more difficult for co-ops to attract the necessary capital to start new industrial worker co-ops or expand existing ones as they often require large investments that workers are unable to pool. So the Mondragon Group, through the Executive Council of Co-operatives, elaborated the draft legislation for the Basque Co-operative Act 4/1993 that included this new hybrid legal figure with the intention of injecting the initial capital required for the co-op to take off, and then gradually worker-owners would buy back the shares of the investors as times get better to become a full standard worker co-op. In relation to the new legal entity, Pedro Mendieta argues, "we always had the idea that if we cannot create more co-ops the society does not benefit, and we would not be serving our co-op principles; we could not stop the economic crisis but we could adapt to cope with it; legislation has been an instrument for us to thrive."

The Gipuzkoa Tax Act 2/1997 article 5.3 establishes that the mixed co-ops "are not specially protected co-ops", a necessary clarification considering that this type of co-op includes workers as members. Pedro Mendieta explains that the law wanted to incentivize the conversion from a mixed co-op to a full worker co-op because the intention was that it be a temporary business form working its way out of the economic downturn. Once the business was back on its feet, the worker owners should be in a financial position to buy out the outside investors to become a full worker co-op. Mondragon's goal of creating co-operative employment was present in the crafting of the tax legislation.

In terms of employment creation and ownership of the means of production by the workers, Spain passed the Federal Anonymous Labour Society Act 4/1997 that abrogated the previous Federal Act 15/1986. It is interesting to note that Spanish-speaking countries use the term "sociedad anonima" for corporations and investor-owned firms, which can be translated literally as anonymous society, an expression suggestive of organizations whose shareholders maintain a private identity.

Article 1 defines a labour society as "an investor-owned firm or limited company in which the majority of the capital is owned by workers who provide services paid to them personally and directly, and whose employment is of a permanent duration". The Exposition of Motives explains that the policy maker justified the creation of this legal figure on the Constitutional article 129.2 that mandates the policy maker and the public powers to facilitate through legislation the access to ownership of the means of production by the workers. There are two types of shares: "a) the labour class is held by worker-owners, and b) the general class is for those who have invested in it but do not work for the business" (art. 6). Workers in a permanent relationship with the business must own at least 51 percent of the shares. Workers who do not own shares must not work more than 15 percent of the total hours worked each year, or not more than 25 percent if the company has less than 25 workers with shares (art. 1.2).

Public policies can be used as a mechanism to create the favourable legislation, funding instruments and co-operative models necessary for development and innovation that address major development barriers (Adeler, 2009; Loxley & Simpson, 2007). The two business figures, the mixed co-op and the anonymous labour society, have the intention of empowering working and middle class workers, who do not have the necessary financial resources to start their own business and get access to ownership of the means of production. The policy maker and social actors had the intention of addressing structural barriers to satisfy popular needs and give working and middle class people a possibility to uplift their socio-economic situation through policy and a business figure. The mixed co-op example show that policy and legislation are useful instruments to promote co-operative development.

Procurement Policy

The Basque Co-operative Act 4/1993 art.138 details special support and procurement measures for co-ops: "The worker co-operatives and the second or further tiers of worker co-ops will have preferential right in cases of tie bids for the tenders and auctions in which they participate and which are called by the Basque public administrations and entities subject to them to carry out works, services and supplies" (art. 138.4). Housing co-operatives in the fulfillment of their purposes may acquire public land by direct allocation system from public administrations (art. 138.7). The law establishes the government's preference for worker co-ops and the second and further tiers in cases of tie bids for public contracts. Again, the Mondragon Group's influence in crafting the legislation is very noticeable in this procurement policy that clearly benefits the Mondragon co-ops. For instance, besides industrial co-ops, some of the group's industrial sector are construction co-ops, which are preferred to carry out public works in case of tie bids with other types of businesses.

Appendix 7

Basque Co-operative Support Organizations

Executive Council of Co-operatives of the Basque Country

The Executive Council of Co-operatives was formally created by the Basque Co-operative Act 1/1982 of February 11. In the first years, the efforts of this organization to support the Basque co-operative movement contributed decisively to the implementation of the Federations of Co-operatives, which started their activities between 1988 and 1991. The Executive Council achieved international presence in October 1988 as it became a member of the International Co-operative Alliance (ICA). Through the ICA, members of the Executive Council participated in analyzing, debating, and crafting the International Co-op Identity Declaration approved in September, 1995 in Manchester (UK).

The current Basque Co-operative Act 4/1993 states: “the Executive Council of Co-operatives of the Basque Country, constituted as the highest organ of promotion of co-operatives, is a public entity to advise Basque public authorities on all matters affecting co-operatives. It enjoys legal personality and capacity to act to perform its duties.”(art. 145). The Executive Council channels, through the federations of co-ops, concerns and proposals of the co-operative movement to move to a competitive environment. The plenary or Board of Directors is composed of three representatives of the Basque Government, seven representatives of the co-operative federations, and three representatives of the Basque Universities with Institutes for Co-op Studies. The seven representatives of the Co-op Federations are composed as such, two for the Worker Co-op Federation, one for the Agricultural Co-op Federation, one for the School Co-op Federation, one for the Consumer Co-op Federation, one for the Transport/Carrier Co-op Federation, and one for the Credit Union Federation. The three universities represented in the Board are the Mondragon University, the Basque Country University, and the Deusto University.

Functions of the Executive Council are the promotion of the co-operative movement, advocacy, collaboration, contribution to the betterment of the legal regime, advice on co-operative matters to the public administration arbitration through its Basque Conflict Resolution Service for co-ops and their members (art. 145.2). The Executive Council is a financially autonomous entity whose budget is formed by:

- a) the amounts assigned to it in the general budget of the Basque Government
- b) the indivisible reserves and co-op education and promotion funds of dissolved co-ops
- c) the donations of the co-operative movement
- d) the proceeds of their activities and assets,
- e) any other income whether from public or private source (art. 145.5)

Their total budget in 2011, detailed in its annual report (2011, p. 32), was close to 2.1 million euros, 1 million euros coming from the Basque Government, and 1.1 million from co-operative liquidations in the Basque region.

The Executive Council participates actively in the process of co-construction of public policy to support the interests of the co-op sector in the public administration and the legislature, according to interviewee Jesus Goienetxe, current Board member of the Council.

The Executive Council has participated with other co-operatives and organizations, and invested capital in the creation of three separate entities to pursue these goals:

- The promotion of new cooperatives (Elkar-Lan Coop.)
- The granting of guarantees (OINARRI Loan Guarantee Company)
- The study and research in the legal and socio-economic area of co-operatives (Elkar-Ikertegia Coop)

Following the goal of co-op development and support to the co-op sector, the Executive Council directly addressed three key co-op development issues by creating these entities: technical assistance and education, the provision of loan guarantees for co-ops, and the creation of new start-ups.

The Executive Council has been crucial in the support and development of the Basque co-operative sector. It was created by law on the suggestion of Mondragon co-ops whose co-op development objectives extend beyond the group to benefit the whole Basque region.

ELKAR-LAN Co-op

ELKAR-LAN is a second tier co-operative whose mandate is the promotion of co-operatives to create co-operative employment and, therefore, social and economic development. It was created thanks to the "Consejo Superior de Cooperativas" or Executive Council of Co-operatives of the Basque Country, the Confederation of Co-operatives of the Basque Country, and several federations of co-operatives. ELKAR-LAN Co-op provides free of charge services to groups of people wanting to start a co-op. The services are, for example, business plans, feasibility studies, bylaws, legal, accounting counseling, technical assistance, information about grants and subsidies, and close coaching or advising of the co-op until it reaches its first year of life (Elkar-Lan, 2010). These services are often lacking because co-operatives cannot afford to pay for them, which leads to poor results, and even dissolution of the co-op (Cornforth & Thomas, 1990).

Number of new Co-operatives started in the Basque Country in 2011

PROVINCE	NUMBER OF CO-OPS	NUMBER OF JOBS
Alava	14	62
Bizkaia	30	121
Gipuzkoa	52	192
TOTAL	96	375

Source: Executive Council of Co-operatives Annual Report (2011, p. 15)

With only "four people on staff, it launched 40 co-operatives in 2008 and the total climbed to 65 in 2009," according to interviewee Jesus Goienetxe, who has emphasized the importance of the overall goal on pursuing co-operative development. The General Assembly and Board of Directors of Elkar-Lan include membership from the Basque Confederation of Co-operatives, the Worker Co-op Federation, the School Co-op Federation, the Credit Union Federation, and the

Executive Council of Co-ops, co-operatives, who have technical expertise and capacity to inspire new players to the co-op movement.

OINARRI Loan Guarantee Company for the Social Economy

OINARRI Loan Guarantee Company for the Social Economy is a financial entity created by the Basque Co-operative Federations, the Anonymous Labour Society Association of the Basque Country, and the Executive Council of Co-operatives. The birth of OINARRI was due to two facts: first, the Basque Federations of Co-operatives and the Anonymous Labour Society Association of the Basque Country raised concerns with respect to the financial problems of their member organizations, and, second, co-operatives and labour societies needed more adequate attention from financial institutions, for financing. Indeed, the initial start-up capital and then the successive contributions of the members constitute the main avenues of funding, but these are not sufficient to meet the investment needs they face. They have to resort to external financing, and experience shows that these companies have great difficulty in obtaining it (OINARRI, 2009).

After approval of the Central Bank of Spain, OINARRI was formally established on October 31, 1996 under the name "OINARRI, Loan Guarantee for the Social Economy, SGR". In the beginning its services were destined only to co-operatives and anonymous labour societies but at the end of the year 2000, OINARRI followed the general trend in the financial institutions as credit institutions or mutual guarantee companies, and considered expanding its scope. Consequently, OINARRI business currently operates with all Basque SMEs for the social economy.

OINARRI guarantees about two thousand businesses per year, achieving 2,464 companies by the end of 2009 (OINARRI annual report 2009, p. 15). The total capital of this organization at the end of 2009 was 17,829,000 euros coming from co-operatives, credit unions, labour societies, and Basque Government (p.27). During 2009, OINARRI guaranteed an amount of 171.5 million euros for SMEs (p. 30). The organization runs with a volunteer Board composed of Basque Co-operative Federations, the Anonymous Labour Society Association of the Basque Country, and the Executive Council of Co-operatives, and has over 20 permanent staff (p. 11). Its president and vice-president come from the Mondragon Group, Fagor Electronica and Eroski Supermarkets respectively.

OINARRI has been wise in securing the collaboration of "the European Union Guarantees Programs for SMEs" for its financial guarantees (p.41). Financial guarantees granted by OINARRI have partial guarantees from the Spanish Company of Refinancing (CERSA, Co) for amounts not exceeding 625,000 euros. In addition to this refinancing subscribed by CERSA, up to a limit of 75 percent, OINARRI has an additional refinancing by the Ministry of Finance of the Basque Government, which speaks to the government support of the social economy (p. 41).

ELKAR-IKERTEGIA Co-op

Elkar-Ikertegia Co-op, a second tier co-op, is a centre for studies and analysis of the Basque co-operative movement created in 2005 by the Executive Council of Co-operatives, the

Confederation of Co-operatives of the Basque Country, several federations of co-operatives, and the Mondragon group. Located in the town of Mondragon, it specializes in research in the legal and socio-economic area of co-operatives that can support the co-op movement (Executive Council annual report, 2009). Its president is Zorione Arregi, legal expert at the headquarters of MCC. They are researching the impact of the fiscal legislation on co-operatives in the Basque Country to determine whether the current tax law for co-operatives still responds to their needs, and also exploring the legal realm of the small-sized worker co-op, according to interviewee Arregi. Although gender equality in the Mondragon co-operatives remains an issue, the centre elaborated a guide to be implemented by co-operatives with practical measures to achieve gender equality, which "helps fulfil the basic principles of co-operatives" (Arregi). The Centre counts only one part-time support staff in it hopes to become an agile instrument to be contracted out by enterprises or government (Arregi).

Appendix 8

Indivisible Reserves in the Quebec Co-op Act

Article 4 of the Quebec Co-op Act establishes: "The rules of cooperative action are as follows:" [...] "(4) a reserve must be established." In the case of winding-up a business, once the debts have been satisfied, that mandatory reserve "shall be transferred to a cooperative, a federation, a confederation or the Conseil de la coopération du Québec by the meeting of the members by means of a resolution adopted by a majority of the votes cast" (art. 185). The Quebec Act also mandates that 10 percent of the co-operative's surplus must be assigned to the reserves (art. 146). The Quebec provisions most closely resemble the Spanish legislation, which may have influenced co-op development in Quebec since it is the Canadian province with the highest number of co-operatives (3,300 co-ops) according to the Conseil Québécois de la Coopération et de la Mutualité (2012).