Comparing organizational democracy in Norway and Mondragon: Lessons learned for other nations and initiatives

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Abstract: We have been asked to compare and contrast the Norwegian system of industrial democracy with the Mondragon federated corporation of worker cooperatives to arrive at a realistic appraisal of what can be learned from both systems and to discern the lessons to be learned for other nations and other initiatives. In doing so, the kinds of lessons that are needed for the emerging system of broad-based employee share ownership and industrial participation in the United States will be introduced as a part of our analysis. We are hoping that our colleagues and readers can benefit from the books and empirical research sponsored by Rutgers University's Institute for the Study of Employee Ownership and Profit Sharing[1] and our sister Journal of Participation and Employee Ownership[2].

Keywords: employee ownership, ESOP, worker cooperative, Employee Stock Ownership Plan

Comparando la democracia organizacional en Noruega y Mondragón: Lecciones aprendidas de otros países e iniciativas

Resumen: Se nos ha pedido que comparemos y contrastemos el sistema noruego de democracia industrial con la corporación federada de cooperativas de trabajadores de Mondragón para llegar a una evaluación realista de lo que se puede aprender de ambos sistemas y discernir las lecciones que se pueden aprender para otras naciones y otras iniciativas. Al hacerlo, se presentarán como parte de nuestro análisis los tipos de lecciones que se necesitan para el sistema emergente de participación industrial y propiedad accionaria de los empleados de base amplia en los Estados Unidos. Esperamos que nuestros colegas y lectores puedan beneficiarse de los libros y la investigación empírica patrocinados por el Instituto para el Estudio de la Propiedad de los Empleados y el Reparto de Utilidades de la Universidad de Rutgers y nuestra publicación hermana Journal of Participation and Employee Ownership.

Palabras clave: propiedad de los trabajadores, programas/planes de propiedad accionarial de los trabajadores, PPAT, cooperativas de trabajadores

1. Brief overview of each system

Let's begin with our summary appraisal of what each system has achieved and what it constitutes at a very high level.

1 Available at: https://smlr.rutgers.edu/content/institute-study-employee-ownership-and-profit-sharing, www.cleo.rutgers.edu
2 Available at: https://www.emeraldgrouppublishing.com/journal/jpeo

Norway has a population of about 5.5 million people, an economy of approximately ½ trillion in U.S. dollars in size, 2022 estimated per capita Purchasing Power Parity of about $78,000 (sixth highest in the world) and 2022 per capita nominal GDP of about $93,000 (third highest in the world). The entire market value of the Norwegian stock market ranged from about $300 billion to $400 billion in August and September of 2022 ("Norway," n.d.).[3] The Norwegian system of industrial democracy was built on the Main Agreement" in 1935 between the Confederation of Trade Unions (LO) and the Confederation of Norwegian Enterprises (NHO) which was supposed to manage labor-management conflict for employers and democratize economic life for unions and the workers for whom they spoke and hoped to speak. Labor Party governments for approximately three decades after WWII helped strengthen this system. Then Conservative Party governments, alternating Labor and Conservative Party Governments, and a Centre-Left minority government with a Labor prime minister have changed and rebalanced this evolving system.

Five large system changes have affected this system, not necessarily listed in order of importance:

1. The discovery of oil and the large contributions of this revenue to Norway's sovereign wealth funds that supports the social programs and growth of the economy.
2. The fact that only about half of Norway's current workforce is unionized although about three-quarters of workers are estimated to be covered by collective bargaining agreements.
3. The added layer of industrial democracy provided by the application of the European Union's 1994 and succeeding directives on works councils[4] essentially providing for an elected works council when there are at least 150 enterprise employees in at least two member states.
4. Much of the labor-intensive industry in the country has been outsourced
5. Despite the world perception that Norway's vaunted Social Democracy has been weakened with the respective alternating liberal and conservative governments, it is important to note, from the 50,000 feet vantage point, that Norway has one of the most developed welfare states in the world and a large state-owned sector in its economy and is regularly classified by global metric systems as the world's most democratic country, one of the least "failed states", one of the highest standards of living, with workers who are among the most productive in the world.

The Mondragon Corporation is located in the Basque Region of Spain and is a system of workplace democracy based on a federation (in a self-governing corporate conglomerate) of 95 cooperatives, 80,000 workers, 14 R&D research centers, with the top ranking in the Basque region as a corporation and one of the top rankings in all of Spain as a corporation (Mondragon Corporation, n.d.)[5]. It began in 1955–1956 with a vision of a Catholic priest and a few workers. Using the data presented by the Mondragon Corporation on the number of workers and the estimates of their productivity in U.S. dollars, we estimate that the nominal GDP per worker is $181,250 which would put it higher than that of the nominal GDP of Norwegian workers. Unlike Norway, Mondragon is almost totally non-union if not over 95 % non-union.

3 On the value of the stock market in total market capitalization, see: https://www.ceicdata.com/en/indicator/norway/market-capitalization

4 On the European Union's directives on works councils, see: https://ec.europa.eu/social/main.jsp?catId=707&langId=en&intPageId=211

5 For a recent New York Times story, see: https://www.nytimes.com/2020/12/29/business/cooperatives-basque-spain-economy.html

Like Norway, Mondragon has a system of social welfare including private health insurance, unemployment compensation, subsidized higher and professional education, supplemented by wages that at the lowest level are above Spain's minimum wage and an enforced gap of the highest to lowest wage over in the corporation of 1 to 6 although in some cooperatives they reported to be as high as 1 to ten.

Like Norway, there is a percentage of workers in the Mondragon corporation who are hired labor and do not participate in all of the benefits of member-workers.

2. Addressing the Questions

We will now address the five questions that we as reviewers have been asked to consider.

– If industrial democratic systems are not one-size-fits all, how can new efforts in this direction learn from the histories and structures of existing successful systems?

Focusing on Norway

Both the Norwegian industrial democracy national system and the Mondragon cooperative corporation have been successful at involving workers in far-reaching participative and deliberative mechanisms to decide about their fates, to adapt to challenges that come their way, and to control the work itself within their companies. While we observe that the national system of laws and norms of the Norwegian system has had truly stunning staying power since the 1930 s in order to influence businesses owned by private owners and state-owned entities in spite of little or no actual worker ownership of the assets to stabilize worker control of the firms, there does seem to be a set of processes that clearly will steadily and slowly lead to a decline in worker power. Speaking from a truly outside vantage point, and certainly not a subjective one (since we have not been involved in the Norwegian system either as a researcher or as a participant), we see several aspects to this decline.

Here are the main challenges. First, the core business processes of the Norwegian firms are being continually squeezed by the world market system and this is forcing them to use cheaper hired labor such as Polish labor, outsource work to other countries, and apply the traditional Norwegian system to a more coordinating set of managerial and productive processes inside Norway. In short, it seems as if the Norwegian industrial democracy system will be mainly for these managerial coordinators and production coordinators principally going forward, not for average workers.

Second, as front-line workers are downsized, replaced by machines, and farmed out to hired and foreign labor, clearly the basis for strong trade unions will continue to decline, unless there is evidence of a resurgence of specifically white-collar unions in Norway. Third, the fact that Norway has not emphasized actual employee ownership of shares in the businesses will continue to weaken the Norwegian system gradually going forward. Unlike in Mondragon, capital ownership by private non-worker owners will help accelerate all these three processes.

For lessons learned on this question from the Norwegian system, we would say that states or regions beginning now to revise their industrial relations system should consider the following. At this advanced moment of advanced capitalist economies worldwide, the Norwegian system of national laws and norms in combination with the starkly more aggressive world market for capital, for labor, and for outsourcing production/design/management, may not be a possible model to follow. It would only work to consider the Norwegian approach if they have similar conditions that Norway had in its first decades. We do not think that applying the Norwegian system can achieve the level of advantages that the system achieved for Norway unless applied in similar past circumstances. Having said that, it is clear that it can be relatively potentially easier to reach a consensus at the national level between organizations of employers and organizations of unions rather than sort it all out in millions of individual enterprises, so the "push" for ongoing industrial democracy from this aspect of Norway's system is certainly a solid idea. Imagine, if you will, a Middle Eastern or African or Asian or Latin American nation that is inspired by Norway, attempting to learn from their overall industrial democracy framework, while adding to the system a form of profit sharing or worker share ownership. We doubt that one of these countries would get the level of industrial stability, standard of living, and co-determination that Norway has achieved for a 90-year period, in this time and age, but it could certainly help. On the other hand, we can imagine that a government with the interests of average workers in mind, and hoping for industrial stability as a precursor to national growth, could adopt a Norwegian-type consensus to involve workers in consultative processes.

It is important to emphasize that, by all accounts, education and research and training has played a central role in encouraging participatory processes to emanate from the top into individual firms. It is not simply that powerful groups made national consensus agreements but that Norwegian research institutes, government training funds, and Norwegian education institutions threw themselves behind studying and developing the system and identifying and transferring skills to owners and managers and workers that would help to develop it. Any country seeking to replicate it will need to replicate this.

Obviously, this is not to say that the U.S. economic system or the UK economic system cannot learn from the Norway framework. Clearly, the U.S. and the U.K. are two advanced economies that have managed to keep even basic recommended labor-management consultative processes out of their economies – let alone mandated works councils for decades while the European Union has moved in the other direction. During the 2016 Presidential primaries, Senator Bernie Sanders of Vermont and Senator Elizabeth Warren of Massachusetts tried to introduce these issues by running on a platform of introducing workers on boards of directors in the United States. The resonance with the dominant political parties was clearly minimal.

Focusing on Mondragon

For lessons learned from the Mondragon system, it is important to recognize in a very focused fashion that the time period that Mondragon and Norway attempted to innovate labor-capital relation is basically the same and the world economic pressures that both systems experienced are comparable although not entirely similar. Mondragon, like Norway, could not cut itself off from the world system of shifting cheap production to less richer regions. Mondragon, like Norway, made the choice to outsource some of its production to cheaper workers who were not covered by the protections of either system. In the end, this development could clearly destroy both the hard-won Norwegian and the Mondragon accomplishments since the middle of the last century. If Mondragon does not confront its system of hired labor it will be eventually destroyed and turn into a form of industrial democratic feudalism with a small number of owners benefitting from a large number of workers.

On the other hand, Mondragon has been more successful in building both financial and organizational participation into the DNA of each individual enterprise. This was accomplished by making workers owners and tying the rights of ownership, namely, financial participation and the decision-making rights that go along with it, within each individual enterprise. However, when one puts a microscope on Mondragon, it becomes absolutely clear that the Mondragon and Norwegian systems share the use of high-level consensus in a federative structure in order to maintain the commitment of the individual enterprises. Norway does it through a national consensus and Mondragon does it through a federation of worker cooperatives. We think that the relatively greater staying power and strength of the Mondragon federation is that it is bottom up and not top down as in Norway. In short, workers own their enterprises and participate in deliberative bodies, but the general assemblies of workers elect expert councils who elect managers and all of these worker cooperatives elect representatives to the Federation bodies who, again, use expert bodies to select top managers. Thus, Mondragon has protected itself from the extremes and risks of direct democracy by groups of individual workers directly electing managers in a kind of popularity or political context. Mondragon has also protected itself from several major criticisms of worker cooperatives, namely:

- -that they cannot react fast because they do not have strong executive management;
- -that they spend too much time deliberating on decisions; and,
- -that they miss critical innovations in products and services.

Mondragon addresses this last issue by having research centers for innovation.

We do think that Mondragon has an important lesson for employee-owned firms and worker cooperatives globally. In the United States we have 400–700 worker cooperatives with anywhere from 7–10,000 workers in them. By contrast, we have about 6,500 Employee Stock Ownership Programs (ESOPs) with 14 million workers. About 6,000 of these firms are closely held, namely, not traded on public stock markets, and several thousand of them are majority to 100 % worker-owned. The ESOPs have more traditional management with the trustee of the Employee Stock Ownership Plan (ESOP), which under US law is a retirement pension trust with fiduciary duties selecting the board, with this board selecting managers. In most cases, workers do not have representation on this board although that is now changing. The small sector of worker cooperatives (where firms have a median size of less and ten workers) have continually criticized the ESOP firms as being non-democratic in their decision-making. In fact, the closely held non-stock market listed ESOP firms, while larger in size, most with several hundred to several thousand workers, tend to have flatter organizational structures, more employee involvement, more training, and more profit sharing. We have been observing for a half a century how these two "close cousins" of industrial democracy get along in the U.S. The lesson to be learned for the U.S. and similar models such as the U.K. – where a small worker coop sector now exists alongside a very large sector of Employee Ownership Trusts (EOTs) is clear. The worker cooperative sector will never grow if it stays focused on direct democracy and direct election of managers at companies above the size of five or ten or so employees. The use of the Mondragon example by worker cooperative sectors worldwide often misrepresents the fact that Mondragon uses representative councils to elect and select managers and that these councils elect management councils that run the firms. This has some similarity to ESOPs. On the other hand, the ESOP sector of majority and 100 % worker-owned firms in the U.S, needs to learn from Mondragon that the representation of workers on boards of directors is doable, practical, and eminently feasible.

- It is clear in the cases that we presented that culture (ethos and worldviews) is an important resource and component in the success of such systems. How do new efforts build a culture that sustains an industrial democratic effort without hobbling its entrepreneurial capabilities and how does this cultural baseline evolve over time in response to changing circumstances?

The lessons to be learned from Norway and Mondragon are quite clear. Both systems clearly value executive management and managerial leadership while creating opportunities for individual workers at many levels to come up with new ideas. Both systems use research on technological innovation to improve the value of their goods and services to customers. These worldviews are easily transferrable. However, the ethos of a worker-centered culture where the work lives of individual workers and groups of workers actually matter to national leaders and to the public at large and to political parties and leaders of both company associations and worker associations (such as unions), is not easily transferrable. In Norway, this worker-centered ethos has deep cultural and national roots. In Mondragon, it was nourished by a combination of the Basque identity and Basque self-determination. For example, one can imagine a fascist regime or dictatorial government trying to implement such a model for various popular reasons, or a newly democratic republic after a popular democratic revolution trying the same. One can imagine a transitional socialist or Communist regime doing the same. Or a democratic nation that has a weak trade union movement. In each of these cases, without a worker-centered ethos, for sure, the introduction of the Norwegian industrial democracy system would fail and the introduction of worker cooperatives would very likely end up devolving into management-dominated fronts. Does this mean that no other countries can try either system? No that is not the case. It does mean that the national leaders and political parties and worker federations and employer federations would have to begin and sustain a strong national message that workers and their work lives and their family economic security are at the center of the new system.

- What do unionized environments and non-unionized cooperative systems have to learn from each other about the balancing of the interests of labor and capital in competitive enterprises?

We think that one clear lesson learned here is that without a doubt a worker-centered ethos in both Norway and Mondragon complemented what is essentially a 50 % union density country in Norway and a close to zero union density in the Mondragon conglomerate. I suspect however that where unions exist and strong shop stewards are involved with the backing of union participation by their members, that the Norwegian consultative processes work best. Mondragon has been able to "approximate" this worker collective power through its "bottoms-up" system of a workers' General Assembly in each firm that elects governing council that selects the management council. The elected Social Council is a voice for all the workers while the Audit Committee is also a worker representative body. Mondragon raises the serious empirical question as to whether these consultative bodies are de facto unions because they are democratically elected by worker owners or whether they end up being dominated by managers with more organizational power.

We see at least theoretically see both sides of the question. On one hand, if these are real elections and the entire Mondragon system – similar to a national trade union organization – is based on lower-level worker-elected bodies then electing mid-level and higher elected worker bodies, what is not to call a trade union? Must a union only be a group elected by an outside organization independent of the firm? Especially if the firm is owned by all the workers. On the other hand, the world is filled with "phony" unions that are merely fronts for management, created by non-supervised elections. We do not know enough to have a final opinion on this but we would ask this key question: can the worker-elected bodies at Mondragon make strong and powerful demands of management? Do they do this? Are they considered widely to be management dominated or not?

Finally, how are we to understand the complex and dynamic relationship between organizational cultures and socio-technical systems that such organizations are always trying to balance? This question is of particular interest to students of organizational democracy.

First, let's recognize some uncomfortable truths. We think that the reason that the Norwegian industrial democracy system became so well known for socio-technical experiments in redesigning and restructuring "the work itself" was precisely because it was not worker-owned. This is not to insult the Norwegian system, only to state the obvious that, not being owners of the firm itself the Norwegian system had to work on worker power through two routes:

– Department committees, work councils, representation on group boards, and trade unions.
– Redesign of the work itself for more direct worker control over the production process.

It is not insignificant to observe that with 100 % ownership of the firm by workers, there may have been less demand by workers for redesign of the work itself.[6] This has always been a weakness of the Mondragon model, laying over an enormous panoply of worker consultative and democratic elected bodies with more traditionally structured workplaces. But it does illustrate an important point: if workers are able to elect a General Assembly at their firm and it can elect a General Council that names managers, and their management council is a representative body, and the workers also have an elected Social Council and Audit Committee, the workers may not be as focused on the structure of the work itself. What does this say about persons in the 21st Century? To us it says that we were mostly born and raised into non-participatory organizations, schools run without much upward participation and early experiences of work that might have been deeply alienating. It says to us that in hierarchically constructed work where workers have job structure focused on "following orders," they have little say in organization of the work itself, selection, recruitment, training, development, and the "management" of schedules and tasks. This legacy is a separate issue that needs to be addressed by structures and processes. It is not enough to simply replace it with worker ownership.

6 An Employee Ownership Trust is a perpetual trust that holds the ownership of a firm on behalf of workers in perpetuity. Workers do not have separate share or stock accounts but receive annual payouts from the firm's profits. See https://eotlaw.com/ In the U.K., leading lawyer Graeme Nuttall is most responsible for developing this sector. He served as the advisor to the UK government on employee ownership. For the U.S., see his presentation at: https://www.youtube.com/watch?v=z8wwB6F7F-s

– Given the detailed agreements and complex structures to manage the relationships between labor and capital revealed in both cases, how can new startups or transformations of existing organizations learn from these structures of political and socio-technical participation and not have to repeat all the trial and error that led to the consolidation of the systems we have portrayed?

This brings up the question of whether a "Third Way" between Mondragon and the Norwegian industrial democracy system could be designed that would have the strengths of each when considered in historical retrospective. We take the US system of about 6,000 mostly majority or 100 % owned employee-owned firms and the growing UK system of Employee Ownership Trusts (evidently one is being founded every two days at this point in history). What could be done with them to learn deeply from the lessons of Norway and Mondragon? For one idea, these firms could be organized into a federation and the federation could take the leadership in expanding training and education on participation. For another idea, these federations could articulate a worker-centered ethos.

We also ask ourselves if countries that have been inspired or will be inspired by Norway could develop a "Third Way." Most observers outside the United States do not really understand the true basis of how the 6,000 mostly majority and 100 % employee owned ESOP (Employee Stock Ownership Plan) companies were developed. They were not founded from scratch one by one as in Mondragon, albeit with the resources of the Caja Laboral Popular behind it. They were mostly developed by doing leveraged buyouts of existing successful firms. In 1974, the powerful Chairman of the Senate Finance Committee, Senator Russell Long of Louisiana (Democrat) worked with law professor, investment banker, and lawyer, Louis O. Kelso to develop government tax incentives that allow workers of existing firms to convert their firms to employee ownership. Briefly, Federal tax law and pension law was amended to allow an existing company to set up an Employee Stock Ownership Plan that could get a loan from a bank to purchase the shares of a retiring or departing business owner and then pay back the loan out of the future earnings of the firm. U.S. tax law allows the new employee-owned firm to get deductions from corporate income tax for both the amount of the principal and interest of the loan. It also gives selling or retiring business owner a way to reduce or eliminate their capital gains taxes on the sale. The U.S. government allows these employee-owned companies organized as 100 % ESOPs using something called an S corporation model to pay zero Federal corporate taxes. The taxes are deferred and collected decades in the future from individual worker-owners when they retire or leave the firm. Research now shows that these firms have over 70 % of their workers also covered by cash profit sharing. Doing these transactions is described in two books, *Democracy and Economic Power* by Louis O. Kelso and Patricia H. Kelso (1986) and *An Introduction to ESOPs* by the National Center for Employee Ownership (Rodrick, 2020).

This can be adopted to a "Third Way" model to help reduce the problems that the Norwegian system has now. For example, the entire market capitalization of Norway is now at about $300–400 billion US dollars with a nominal Gross National Product of about $500. Billion in U.S. dollars. Using the ESOP tax incentives in the U.S. 6000 closely held companies and about 600 listed stock market companies have done leveraged buyouts of owners stock and put $1.7 trillion dollars in the hands of workers as employee-owned stock in ESOPs. We are sure there are many Norwegian employers close to retirement or interested in worker partners who would like to sell part or all of their firms. Imagine the government of Norway instituting such ESOP tax incentives and tax incentives for cash profit sharing too and combining this "equity/profit sharing" model with its current industrial relations system. Imagine other countries using an ESOP-inspired "equity/profit sharing model" as part of a new industrial relations system using the best lessons from Mondragon and Norway. It is clear to us that the financial accomplishments of the US ESOP leveraged buyout market compared with the size of the Norwegian economy demonstrate the feasibility of such a plan.

– Are their boundaries or scales beyond which industrial democratic systems cannot survive or to which neoliberal capitalist organizations are better suited or not?

We strongly object to the "neoliberal capitalist organizations" wording. Let's be perfectly clear. In almost everything except their consultative committees, Norway's firms are neoliberal capitalist organizations. In almost everything, except that their shares are owned by the workers and they do representative elections, Mondragon's firms are neoliberal capitalist organizations. In Norway the only exception is that workers have consultative rights as the global capitalist economy interacts with them. In Mondragon, the only exception is that workers can supplement their wages with an ownership interest in their firms as the global capitalist economy interacts with them.

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