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## Mondragon, Failure of Fagor Electronics, and the Future of a Cooperative

By

Hideo ISHIZUKA

Institute of Nonprofit Health Care Cooperation, INHCC, Japan

*Abstract Fagor Electronics, a flag ship industrial cooperative of Mondragon Cooperative Group in Spain, collapsed in 2013. Some who believe advantage of cooperative company astonished and wondered potentiality of cooperative in the global market. Some say this is end of myth of Mondragon cooperative group. This paper emphasizes failure of Fagor Electronics does not mean a death of cooperativism, but it must clear a way of a quest for sustainable development of cooperative. This paper notes how Mondragon group deal with this difficult situation keep in cooperative principles. The lessons are cooperative must select its suitable manufacturing sector. Important thing is to create and maintain employment and decent work, not to continue a cooperative unsuitable to the market. A cooperative is a human orienteering enterprise.*

Key words: insolvency, global market, membership. subsidiary, cooperative principles  
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### 1. Introduction

The Fagor Electrodomesticos (FED), a household appliance manufacturing cooperative, big pillar of the Mondragon cooperative group (MCC) in Basque, Spain applied for liquidation (bankruptcy) procedure to the commercial court of San Sebastian in October 2013. This was big news of surprise into the cooperative sector in the world. Moreover, the media in the world also presented the question over failure of a workers' cooperative and the validity of a cooperative in general.

How to consider the meaning of bankruptcy of Fagor Electrodomesticos?

Mondragon's value or Principles of MCC has been globally elated as social economy enterprise group which established the headquarters in the Spain Basque Country

and made workers' cooperatives form the core and which was formed of various cooperatives and the subsidiary of those (refer to Table 1, Table2). Four pillars, the industrial sector, the distribution sector, the financial sector, and an educational and research & development sector carried out common solidarity and have put up for the purpose of economic democracy and a social concern and social contribution. The idea is shown in the Mondragon principle enacted in 1991 by MCC Conference. Historically, founder Don. Jose Maria Arizmendiarieta, a catholic priest, began from a preparation period called the educational cultural activity to the young men of middle and lower class in the town of Mondragon area from 1941, and made the engineering-technologies school. The first industrial cooperative Ulgor was founded by some of those young men in 1956. This Ulgor became a Fagor household appliance. Therefore, the history of the success of Fagor household appliance started in 1956 and greeted with frustration in 2013.

By bankruptcy of this Fagor household appliance (FED), although the Mondragon group (MCC) has experienced one big failure, it has not necessarily greeted the conjuncture with the Mondragon group itself. However, by this failure, irrelevant of Mondragon's itself will, a tendency of idealization or mythicization of Mondragon will be stopped. Moreover, it is also a foolish thing to deny the Mondragon cooperative movement extensively vice versa. Probably, we need to arrange what kind of problem there is in the light of the value and the principle of a cooperative movement.

For the moment, we have few information enough to judge why the FED group chosen a petition for bankruptcy. At first, it is said that FED sought refinancing talk with Spanish financial institutions, such Santander, BBV, Caixa Bank (Financial Times, November 3, 2013) as it is said that Basque government also did not desire bankruptcy of FED group and to intend financial support to FED, and MCC itself to think to support financially FED until last minute continuation was offered. As a point of argument, it seems that there are (1) raising-of-money problem, (2) marketing strategy problem, (3) management's judgment problem, (4) a structural problem of cooperative company, (5) cooperative labor, a local employment problem.

## 2. Bankruptcy of FagorBrandt

When the FagorBrandt, subsidiary cooperative company of FED became bankruptcy, it occurred astonishing in the world and people's first concern was why the FED went bankrupt. People thought two kinds of the reason of the failure of FED. The first reason they thought is a question over the validity of the cooperative in general, namely a

failure of cooperative principles. The second is makes a mistake of FED in management, so it does not to be what means failure of cooperative itself. The example of representation of the failure theory of a cooperative is an article of Le Monde journal in France (2013.11.6). From the article we summed up this article as follows.

"About 6000 employees were in FED by the entire world, and there were 2000 persons in France. The possessory MCC refused funding for FED. FED became hopeless and struck the door of the U.S. speculation funds,( such as Elliot, Cerberus, and Fortres). Needed 170 million euros as an urgent fund in the FED. The Chinese Haier canceled the proposal of the refrigerator factory in Poland with a FED on November 4. 2013. Four factories in France had already become an operation stop in October 2013. However, Lorain Prevost of a labor union (CFDT) has judged "cut off the bridge" off to the subsidiary in France (FagorBrandt) for the reason the FED currently faced with its conjuncture differs in a French legal system. Can FagorBrandt separated from the main building be survived? The Industrial Minister of the France government eased workers noting that he took a certain relief measures, noting that was promising, since 14% of the France market was formed. However, we are anxious about the ability to compete with the Chinese-made product of a cheap price. In the household appliance market, Arsetik(Turkey),Samsung(South Korea),Haier (China), Whirlpool (USA), Electrolux (Sweden), Bosh(Germany) and Siemens(Germany),etc. are observing the situation of FED. , "

Although it became somewhat long quotation, the Europe household appliance market is shown the fact of the Manufacturer of Asia also entering in recent years and having become a violent competitive market. FagorBrandt became a subsidiary of FED in 2006. There was also the theoretical problem how to think of the subsidiary in a cooperative (overseas and domestic). FagorBrandt is originally based on in 1994 French Law of SAS (Société action simplifée), simple incorporated company. This French company law has the two-faced that it is utilizable also as the holding company of a multinational company, and a personal company (limited liability company) of small and medium-sized enterprises, in that capital and decision making do not link directly. Here, we will become the argument whether it should be the corporation form of the subsidiary of a cooperative should be a cooperative or not, i.e., the form of incorporated company, a limited company, and others. There are especially restrictions that a foreign subsidiary follows the legal system of the foreign country.

In the first place, is adoption of cooperative form possible as a subsidiary? There are some conditions in it. It must be based on the cooperative law of a local country if it is. A cooperative is based on a member's (workers) participation (investment, labor, decision-making). Moreover, it also become the question whether it is appropriate to a subsidiary if it cannot make from cooperative form. For example, may incorporated company be sufficient? An incorporated company is not good and to set up a social economy company is good for a cooperative. Then, was FagorBrandt of France a social economy company? An answer is yes. The president was a cooperative principle person and wished the continuation as a social economy company. However, question is whether the idea of being a social economy company was widely shared by the employees of FagorBrandt or not.

The answer is yes. The president of FagorBrandt was a cooperative principle person and wished the continuation as a social economy company. However, it is doubtful whether the idea of being a social economy company was widely shared by the employees of FagorBrandt. Now, the insolvent procedure of FagorBrandt is progressing at the Nanterre Court. Cevital, Algerian enterprise group, is demanding buying over FagorBrandt by 250 million euros, and waiting the judgment of the court. Cevital said they will reemploy 1,400 persons among 1,800 employees. FagorBrandt produces at four factories, such as kitchen equipment apparatus (Vendome), gas ranges (Orleans), a washing machine (La Roche), a microwave oven (Aizenay). The labor union is anxious about whether Cevital would keep the promise of employment.

Bankruptcy of FagorBrandt shows that FED bankruptcy problem is not only limited to the internal problem of a cooperative. If you think it as inside problem of a cooperative, you must carry out a question that the subsidiary problem of a cooperative, i.e., the domain where a cooperative is concerned, can be extended how far. It is self-contradiction theoretically that a cooperative includes profit-making capitalist company. However, there are also many cooperatives which own joint stock company as a subsidiary. And to do not recognizing and not arguing about the problem of the various legal persons forms of subsidiaries of a cooperative would leads to a self-naysaying of a cooperative. Can you sure enough from such a viewpoint to catch the subsidiary problem of the FED which makes FagorBrandt bankruptcy? If it says simply that FagorBrandt was forcibly driven into bankruptcy in response to the by-blow of FED. In short, probably, it is the ultimate cause of bankruptcy that the blood circulation of the raising of money broke off. Probably, it is reason how to catch the French journal *le monde* wrote of "having severed the bridge".

A tragedy of subsidiaries is that a holding company has the strong controlling power

over them. It seems that the problem of FagorBrandt should have been based on decision-making centering on the employees of FagorBrandt if it stood on the cooperative principle. It will call it formally serious consideration of the talks with the pressure from a labor union, or social dialogue with a labor union. Then it was possible that the policy of debt payment of the financial deficit of 170 million euros of FagorBrandt might be resolve with a labor union. Furthermore, if it goes back to an opposite direction, FED itself might have consciousness of "a subsidiary company" of MCC. So, it is also able to say that the dependence nature of FED to MCC caused bankruptcy of FED. It is what is called chain reaction bankruptcies.

The external factors of judgment that bankruptcy of FED is not avoidable are as follows, namely, (1) Europe household appliance market drop and saturation of home electric products demand, (2) The global economic crisis in 2008 and afterwards. (3) Disadvantages of FagorBrandt as a cooperative company (factory relocation, personnel reduction, raising-of-money, labor conditions), (4) Change of consumer needs, and competition with a capitalism company in the market.

Why FED choose the way of bankruptcy? That is because they are cooperative. It can say being cooperative is an internal factor of bankruptcy. Hereinafter, we list as follows. (1) Keep the cooperative principle. Keep decision making participation of worker members. (2) Dependence to an MCC group, namely injection of the -MCC solidarity fund of 300 million euros into FED. (3) Failure of Business plan 2013-2016 of FED. FED could not adapt foreign market expansion strategy and capitalist company action). – Annual business sales fell from 2009 and annual business reports showed deficit accumulation.

### 3. MCC and the conjuncture of FED

Organic relation or combination between MCC and FED is composed by man, materials, and money circulation among them as an associated group. MCC forms the complex as a business union and human union in the form of a cooperative. Therefore, like human's body, even if a somewhere had got an illness, they cut off the focus, or I make it recover, and can continue the sound body itself. However, in the case of a cause of a disease which influences the whole system, it become an illness which it dies of. One is a disease of blood circulation called money. Bankruptcy of FED is having determined by not supported financially any more by MCC, although MCC was directly covering a deficit of FED in 300 million euros till then. It is not clear whether this determination was good or bad. However, it is clear to have decided at the MCC

executive board meeting on October 23, 2013, that FED cannot continue its business moreover.

There is the fact that the Basque government and the partial management of FED had wished continuation of FED against a decision of MCC. Moreover, it seems that MCC itself was not enough to consider the meaning and influence of bankruptcy and liquidation process of a cooperative by judiciary.

Table 1. MCC (2012) million euro (compare last year)

Item				
Total asset	35,887(+10.6%)			
Business (Industry, Distribution)	12,903(-7.6%)	Export 4,004		
Number of enterprises	289	Cooperative 110	Subsidiary 179	
Cooperative	110			
Subsidiary	179			
Employees, Workers	80.321 persons	Basque CA. 42% (33,734)	Other Spain 40% (32,128)	Overseas 17% (13,655)
Industrial Sector	36,963 persons	Fagor, others	About 100 Cooperatives	Members 86%
Distribution Sector	39,839 Persons	Eroski, others		
Financial Sector	2,486 Persons	CL, Lagun Aro, others		
Education/Training Sector	1,033 Persons	Mondragon University, Others,	Students 11.248 Persons	
Research/ development Sector	2,096 Persons	15 centers		
Toral Investment	331			
Members Share	1,838			

Capital				
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Source: Informe Anual 2012, MCC

Table 2. MCC, Industrial Sector (Million Euro)

	2011	2012
Total Sale	5,929	5,812
Export	3,973	4,004
Investment	335	307

Source: Informe annual 2012, MCC.

#### 4. Bankruptcy of FED and Household products Market

FED group went bankrupt in October 2013 and entered with debtors-creditors a prior consultation by the commercial court of the Guipuzkoa province. There is almost no possibility that FED could continue in an old form. FED has formed 3.2% of the gross domestic product of the Basque country, 7.4% of its industrial production, 3.5% of its employment and 8.4% of employment of the industrial field and 12.2% of export of the Basque country, and 5% of the number of employees, 8.1% of the business sales of the Mondragon group (Annual Report, MCC, 2013.). FED was the 4th big company in Spain, and, in the 5th home electronics manufacturer in Europe marketplace. FED had occupied 17.7% of share in the Spain market , 14% in France market and 7.9% in Poland Market.

FED group is a member of Fagor Group with Fagor industrial machine group (Fagor Arasate, Fagor Ederlan, Fagor Assembly, and Copreci which are cooperatives). FED has reached about 10% of business sales in an industry and distribution sector and about 5% of employees in the MCC. Therefore, this Mondragon's failure is the occurrence in the household appliance section. What is called white home appliances produced by FED are a refrigerator, a washing machine, a kitchen system, and other small home appliance products. Television, AV equipment, a personal computer is not contained.

According to the chairman of the board of directors of FED, first direct cause of selecting bankruptcy is the downturn over five years of household appliance market in Spain and the Europe. MCC bulletin TU Lankide( October-November 2013). It is an external factor of a household appliance market. In Spain and Italy, the economic slump of the financial crisis continued after so called Lehman shock in 2008. Total

Sales in the overall market of household appliance of Spain were half sized down over 2007 to 2012. (The Spain household appliance manufacturing industry association ANFEL, 2013). One of the big changes in the period of the depression in and after 2007 of the household appliance market in Spain and Europe is that the import from China increased. This brought product price reduction competition and brought the Europe home electronics maker problems, such as deterioration of the added value of a household appliance product, and a relative rise of labor costs-expenses. Since the household appliance market in Europe is traditionally rooted in the European lifestyle, so the manufacturers of Europe have occupied its market. However, the sales of the household appliance manufacturing industry of Spain began to shrink since 2007 the peak, and declined the labor force contracted, and the decreased the number of manufacturers. Thus, it can grasp from a business report that such an external factor made the deficit of FED accumulated.

How did FED correspond to the depression? At first, for continuation, FED tended to correspond financial support by receiving financial support from the MCC, private financial institutions, and the Basque government. On the other hand, FED made "2013-2016 Strategic planning", and decided it at the general meeting in December 2012. At this time, it turns out that FED tried to make it develop by a positive expansion plan, despite its cumulative deficit ( TU Lankide, June 2012). According to the Strategic Planning, FED will expand East Europe Market especially in Poland where development will be expected in future, and to promote by expanding production a business tie-up with Chinese company HAIER and other Asian Manufacturers to Middle East Market selling De Dietlich brand, for hold up the target to increase 200 million euros sales for four years by 2016 in an oversea market. The Spanish household appliance market went in a narrowing trend. Nevertheless, or that's why FED decided to adopt an aggressive expansion strategy of production expansion and international tie-up with foreign companies. At the same time, this strategy might embody another intention of corporativism to maintain and expand cooperative continuous employment within the social economy company in the world. Moreover, FED had developed newly technological products including ecology friendly products to meeting the needs of the consumers of Europe Market. That is, FED held up two targets of globalization and the advancement of products.

Table 3. FED Group Balance (thousand Euro)

	2010	2011		2010	2011
Fixed	702,625	661.620	Fixed	496,355	378,604



Assets			Liability		
Current Assets	707,565	618,815	Current Liability	687,199	746,844
			Subsidiary Investments	106.434	106,434
Total Assets	1,410,190	1,300,435	Total Liability	1,410,190	1,300,435

Source: Cuentas Anuales 2011, Fagor Electrodomesticos,S.Coop,

Table 4 FED Group Total Sales (Million Euro)

Year	Value	Last year	Overseas
2000	1,031	118.2%	438(40%)
2:005	1,639	143%	893(54%)
2007	1,947	99.7%	1,227(63%)
2009	1,576	86.9%	1, 0 8 7 (69%)
2012	1,245	93,4%	946(76%)
2013First Quarter	491		

Source, : MCC(CM) Each Year's Informe Annual

Table 5. FED Group Employees, Workers (Cooperative Members)

Person	2011	2010
Direct employees	3,511(2,2,19)	3,733(2,325)
Indirect employees	3,130	4,527
Total employees	6,641	8,260

Source: Cuentas Anuales 2011, Fagor Electrodomesticos,S.Coop,

Table 6. FED Group Total Benefit (1,000 Euro)

	2011	2010
Cooperative	24,651	3,860
Fagor Brandt (France)	1,331	3,805
Fagor Mastercook (Poland)	223	155
Other subsidiaries	2,636	2.049
Total Benefit	25,733	9,870

Source: Cuentas Anuales 2011, Fagor Electrodomesticos,S.Coop,

Table 7. FED Main Brand

FagorBrandt, De Dietlich (European market)
Aspes, Edesa (Spanish Market)
Sauter, Vedette , Thompson (French Market)
Ocean, SanGirogio, (Italian Market)
Mastercook (Polish Market)

Source: Informe Anual,2004 , Fagor Electrodomesticos,

Table 8. Main Subsidiaries of FED (2004)

Name	Country	Obtain year	Employees, Workers
Extra Electromanager (Stock Company)	Morocco	1994	212
Worzmat (Stock Company)	Poland	1999	1,254
Gayer-Gastech S.A. (Stock Company)	Basque	1998	272
FagorBrandt (Stock Company)	France	2001	4,644

Source: Informe Anual 200,4Fagor Electrodomesticos,

What is the reason FED which intended to challenge in the household appliance market with by idea of globalization and the advancement in products went bankrupt, and the other colleagues' multinational companies did not go bankrupt? Within competitors against FED, they are Electrolux (Sweden), BSH (Germany), Whirlpool(United States), Merloni Electrodomestici (Italy), etc. are capitalist enterprises, and each of them have avoided the financial crisis by methods, such as factory relocation to Asia ,etc., closing of a factory, and personnel reduction, that is layoffs. For example, Electrolux is doing closing-of-a-factory reduction from 2007 to 2013 (a table9).

Table 9. Factories Closed of ElectroLax

Place	Country	Main product	Closed Year
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Torsvik	Sweden	Small electric Domestic	2007
Neremberg	Germany	Washer, Dish washer	2007
Adedaide	Australia	Dishwasher	2007
Frederecia	Denmark	Cooker	2007
Adelaide	Australia	Washer	2008
Spennymoor	UK	Cooker	2008
Zhangsha	China	Refrigerator	2009
Scandicci	Italy	Refrigerator	2009
Sr. Petersburg *	Russia	Washer	2010
Motala	Sweden	Cooker	2011
Webster City	U.S.A.	Washer	2011
Alcala	Spain	Washer	2011
L'Assomption	Canada	Cooker	2013

Source; Anural Report 2012, Electrolux

Table 10. Household Appliance Manufacturers in Europe (2012)

Country	Manufacturers	Employees	Sales (Million Euro)
Germany	270	53,589	8799
Spain	287	18,786	3380
France	165	14,470	2704
Italy	602	55,274	11439
Poland	239	15,943	1656
UK	398	18,209	3278
EU 27	3422	237.300	36.900

Source: Enterprise manufacturing subsectors annual, 2012. Eurostat,

Table 11. Industrial Labor Cost in Main countries in Europe Euro (2011)

Country	/An hour	Country	/An hour
Spain	23.0	Italy	27.3
France	36.6	Poland	7.4
Germany	35.4	UK	23.3

Source: Enterprise manufacturing subsectors annual, 2012. Eurostat

Note: Labor cost is wage plus social security cost

Moreover, the manufacturers which export their home-electronics products into the Europe market in 2007 are such as, South Korea 7%, United States 3%, 58% of China 58%, and Turkey 16% (Dadacomex Europa, Europe census of commerce). The household appliance article sales ratios of Spain are 14.5% of a refrigerator, and 10.6% of a dishwasher 27.5% of a washing machine, 30.9% of a kitchen counter (cooker), and oven 16.0% (ANFEL, the Spain household appliance association.2007). The sales of the Spain household appliance market fell 56% from 2007 to 2013. Each home electronics maker corresponded by methods to the declining market, such as personnel reduction and factory relocation. However, FED did not adopt such methods. That is because FED is a cooperative company. FED is seemed to challenge as a cooperative against the big economic depression and economic recession of Europe and Spain. It can say that FED considered that the matter is an internal problem of a cooperative company.

Table 12. Export-Import of Household Appliances in Spain (Million Euro)

	2000	2005	2007
Export	1129.2	1246.7	1128.8
Import	1299.6	1713.7	2000.8
Balance	-170.4	-467.8	-872.2
Export/Import	88.9%	72.7%	56.4%

Source: DataComex. Ministerio de Industria, Comercio y Turismo, Spain

Table 13. Main Import Countries of Household Appliances in Spain (Million Euro)

	2000	%	2007	%	2011	%
China	114.3	8.8%	489.7	24.5%	474.0	34.2%
Germany	273.2	21.0%	350.6	17.5%	191.5	13.8%
Italy	326.0	25.1%	315.5	15.8%	140.0	10.1%
France	167.0	12.8%	163.1	8.2%	76.5	5.5%
Turkey	32.5	2.5%	141.7	7.1%	138.4	10.0%
Poland	1.7	0.1%	97.8	4.9%	99.7	7.2%
South Korea	55.4	4.3%	86.7	4.3%	25.7	1.9%
UK	76.7	5.9%	52.2	2.6%	25.2	1.8%

Source: DataComex ,Ministerio de Industria, Comercio y Turismo, Spain

Table 14. Fluctuation rate of Domestic Household products numbers

	2003	2006	2008	2009	2010	2011	2012	2013
Refrigerator	+11.36%	+7.87%	- 14.75%	- 11.30%	- 11.19%	- 11.58%	- 20.49%	- 11.17%
Washer	+4.83%	+10.42%	- 13.61%	-5.43%	-4.11%	-7.07%	- 10.98%	-4.64%
Dryer	+24.13%	+1.70%	- 22.87%	- 12.35%	+12.46%	- 23.21%	- 28.44%	-6.32%
Dishwasher	+8.72%	+3.27%	- 12.11%	- 16.51%	-1.22%	- 10.94%	- 12.25%	-8.87%
Cooker	-6.65%	-9.90%	- 17.51%	- 19.30%	- 31.09%	-7.04%	- 31.88%	- 17.91%
Oven	+3/30%	+2.01%	- 16.59%	- 20.00%	-3.14%	- 12.95%	- 14.05%	-3.49%
Others	----	---	---	---	---	---	---	---
Total	+10.34%	+8.20%	- 17.62%	- 15.48%	-4.01%	- 14.44%	- 13.86%	- 6.412%

Source: Estadicas 2013, , ANFEL, Asociación Nacional de Fabeicantes e Importadores Electrodomésticos

## 5. Bankruptcy of FED

FED wanted to overcome a financial crisis positively just before resulting in bankruptcy. FED considered its continuation based on the "20013-2016 strategic planning" of FED group made on December 13, 2012 (TULakide). The plan was as follows. Namely, to fight against household appliance depression in the whole market, FED aimed at external fund introduction, put a lot of energy into new product development, gaze at a revivification in the Spain market, oversea market division, Asia, East Europe, and the Middle Near East market, and pursue an expansion road called a production rise. FED will invest 10,8 million euros in first quarters of 2012 to technology development. FED will invest 55 million euros to China Haier and 56 million euros to Poland, respectively. In the plan aggressively enough, FED will get the total business sales of 200 million euros by 2016 (117 million euros in 2012).

However, it is that the abrupt turn occurred in September 2013. It is because the sales

in the first half of 2013 were low contrary to the prefiguration. For this reason, it seems that the reliability over the direction shown by the 2013 to 2016 strategic planning of FED till then collapsed at a stretch.

We list progress simply below (based on the TU Lankide, October to November 2013).

May 2013. MCC group meeting decided FED loan support of 70 million euros as a reconstruction member employment fund (FRES).

September 2013. FED requests to MCC more 50 million euros as support fund.

October 15, 2013. MCC group meeting unanimously decided to reject support of 50 million euros to FED. Because MCC judged that even though to give 50 million euros for FED, it could not secure the future of FED.

October 16, 2013, FED applied for the procedure of a prior creditor's meeting to the commercial court of the Gipuzkoa. It is seemed that FED wish to seek the way for its financial reconstruction in the creditor procedure for four months.

October 30, 2013. MCC group announced that it is impossible more support to FED, because, due to have supported about 300 million euros in the past several years, and that each cooperative of MCC cannot pay any more for FED.

October 31, 2013. Mastercook of Poland, subsidiary of FED, also requests the creditor's meeting to a judicatory, to protect employment of both FED and Edesa. However, the court did not accept the suit due to the head office of the company is not located in Poland. For understand the details it may refer EU regulation or directive of insolvency.

November 6, 2013. For French subsidiary FagorBrandt, creditor procedure is shown by a court. (We do not know the details.)

November 13, 2013. FED applies a court insolvency process.

November 24, 2013. Edesa applies insolvency process to a commercial court.

December 17, 2013. Province official gazette (BOE) notification. The Gipuzkoa commercial court starts of the creditor's meeting (liquidation procedure) both of FED and Edesa. Commercial court appoints as insolvency administrator (trustee), three public accountant offices, EVE Admistracion Concursal, SLP-Howarth Auditores, and SLP-Consultores Sayma. (Spanish law of insolvency, Ley 22/2003)

## 6. Creditor's meeting of FED

In the creditor's meeting by a Guipuzcoa province commercial court, the insolvency process to FED and Edesa to clear each financial situation, amount of debt, and

identify of creditors will be done. It seems that dealing with FagorBrandt in France, Mastercook in Poland and Gurmál in Spain are to be discuss after clearing the financial situation of FED itself. We do not know at this moment of the insolvency process of EU insolvency legislations.

Moreover, Province official gazette announced that creditor's application should be done in an arbitrary prior creditor's meeting, although about creditor's sequence priority, and capability of repayment of debt, and particularly about whether FED should be abolished or not or continue them partially can not tell after the progress report of the creditor's meeting. Among the creditors, there exist the Basque government, MCC, commercial banks, suppliers for FED. It is also unclear the handling problem of capital participation(share) and voluntary reserve fund of workers members in FED and Edesa. The problem is derived from the fact that FED itself can not decide about the destiny of members share and cooperative fund in a case of bankruptcy. By application for an insolvency court, a cooperative cannot make handle their asset by own hand. Commercial court call cooperative members share and their reserve fund "secondary investment", so the question of whether workers members can do their share capital or account retrieval or not will discuss in the national reconstruction assessment committee.

As of October 2013, the view of the problem of repayment of members share is differed with between MCC and the management of FED. The chairman of the board of directors of MCC I bulletin TU Lankide said that members share, or an investment may refund to workers members. On the other hand, an executive of FED said it may not refund to. Anyway, amount of debt of FED is too large in actual condition and there is almost no cash in FED, so it is very few possibilities of being returned investment to workers members, and even if the right of investment refund approve, there is few possibilities to refund, because of low priority of workers members as a creditor. As for what kind of judgment unlike Japan, in Spain that cooperative capital or social capital and members investment, are defined as assets or liabilities in the balance sheet. In Japan, it is liabilities, in Spain it may be assets. Social committee (a worker organization, a formal organization) of FED recognizes that worker members also have responsibility to cooperative management and is claiming that a court or insolvency official receiver should accept a worker member as a creditor, based on the fact of 87 million euros of members share capital and voluntary reserves. But the chairman of the board of directors of FE afraid it is impossible to refund to worker members. It seems that the national securities market committee (CNMV) and Social Economic Affairs Bureau of Basque Government will judge this problem.

## 7. Support by MCC for worker members in FED

Regardless of the conclusion of creditor meetings, it is inevitable of dissolution of FED. At this moment, among 1865 worker members, 799 persons had removed to other cooperatives within MCC, and 500 persons entered early retirement. It is sure that FED had tried their internal effort for improved management at just before resulting in bankruptcy. Specifically, FED performed reduction of expenses and a salary cut. In 2012, Fagor group decided 7.57% cut of the annual wage for workers members of the industrial machine group and 8.81% cut (approved by 87% of voters) of the wage of FED at each general meeting. Moreover, each cooperative of MCC decided to do the 5% cut of wages to allot for FED support. This is a spirit of cooperative solidarity in the Mondragon group, and is being unable to do, if it is not a cooperative group. MCC overall, had continued the financial support for FED from the 2008 fiscal year, and became 100-million-euro accumulation by 2012. This was performed through the cooperative solidarity fund, the educational promotion fund, the investment funded reserves of MCC. The technology development centers also assist FED and Lagun Aro, mutual aid organization, promote change of job for tentatively 1200 jobless worker members within in the Mondragon group.

## 8. Bankruptcy of FED

FED of course MCC has cooperative principles including members participation. Participation has three functions. Namely, (1) share(investment) participation, (2) labor(work) participation, and (3) management participation. The example of bankruptcy and closing, or the financial crisis of a cooperative existed within the Mondragon group until now. However, in these cases, since they were small-scale, it can say that MCC could resolved within their safety network inside a group. In experience of the strike of Fagor in 1974, the deviation of some worker members' cooperative principle became a problem and brought it about the conclusion that it was caused by a defect of cooperative company articles of association and a by-law. Then Fagor Group took as solution by institutionalizing cooperative participation more. When worker members did return to work, it solved the strike also in personnel affairs. However, that was members participation problem in the inside of a cooperative company, within the limits of the so-called argument on economic democracy. That was not the problem of bankruptcy of Fagor. You can not to say the



cause of bankruptcy of a cooperative company is only an external factor. There exists an internal factor naturally. Does the bankruptcy of a cooperative company itself become a naysaying of the essence of a cooperative company, namely cooperative principles? We can not say yes because the bankruptcy of a capitalism company also cannot be becoming a naysaying of the essence of a capitalism company. However, we must ask whether bankruptcy of FED is caused by deviates from the essence or the principle of a cooperative company or not. In the first place, a general meeting of members of FED decided to select bankruptcy. Although the members ratio in the employee(workers) in a mother cooperative of FED was 80%, on the other hand, FED group, members ratio was only a third of employees (workers). Application of the cooperative principle in the increase in a nonmember workers ratio did not develop theoretically in the process in which FED did takeover French Brandt, and expand a scale quickly, and advances globalization.

Since the 1990s, FED had changed or developed what is called a transformation-into-owned-subsidiaries problem. Moreover, FED did not or could not to remove the refrigerator factory and the washing machine factory in Mondragon area to foreign country. This was a weak point for FED to fight in the international competition market. Cooperative principle of the work creation to the area of their community is one of causes of Bankruptcy of FED.

Fagor group has said the corporate culture of Fagor is comprised by internal diversity and heterogeneity, correlation of economical efficiency and social value. It has been managed as a different thing with the management system of the capitalism company having priority of stockholders, and waged employees' system. In the competitive market economy, for a cooperative company to continue, there are some which do not take the same technique as a capitalism company. It is management democracy. In globalization, FED had hung up in cooperation with the social economy sector in the world as an idea.

One of cause of failure of FED may be that social economy companies which should work together in a global market hardly exist in the foreign country. If we were developing the social economy sector in each country, FED were not needed to go bankrupt. Bankrupt of FED is caused by to keep cooperative principles to compete with capitalist competitors in capitalism market. If FED tried to lay off their employees like capitalist companies, FED could possibly survive as an enterprise but would lose an identity of a cooperative. We think that MCC will newly create the cooperative company which keeps industrial democracy, and a new field by exploitation of the new advanced product field, making secured wage or remuneration for the workers

who lost their job. For that MCC hangs up an innovation in principle and they have 12 technical research centers.

We list the reexamination issues of a cooperative theory derived from the failure of FED below.

- (1) Handling of the members investment and reserves in liquidation,
- (2) The role and range of an MCC solidarity fund,
- (3) Selection of an international market or a segment of industry for a cooperative,
- (4) Cooperative and subsidiary problem. Employee conditions and social security system.
- (5) Cooperative as a global company and, international and domestic legislations.
- (6) Management and governance of a cooperative,
- (7) Community development and a cooperative,
- (8) Upgrade collaboration between cooperatives,
- (9) Formation of a global social economy sector

#### 9. Future of FED

At this moment it is not clear what kind of conclusion of insolvency process by the court. FED is seemed to wish to continue to produce household appliances, especially a kitchen system field because of this field is a field into which a foreign Manufacturer is hard to enter. The option of FED would be as follows.

- (1) The cooperative of FED; it shall be continued, or sale or, abolition,
- (2) Subsidiary companies: it shall be separated, or do independence, or abolition,
- (3) Overseas factory: it shall be sold, or continuation,
- (4) Worker members; rearrangement, re-training, unemployment, retirement,

#### 10. The necessity of making a subsidiary by a social economy company.

Bankruptcy of FagorBrandt shows that a FED bankruptcy problem is not only limited to the problem of a cooperative. If you restrict to as a problem of a cooperative, you must carry out problem of subsidiary of a cooperative, i.e., the domain where a cooperative is concerned, can be extended how far. It is self-contradiction theoretically that a cooperative includes profit-making incorporated company. However, there exist also many cooperatives which own incorporated company as a subsidiary. Without not recognizing and arguing about the problem of the various company laws with contextures of a cooperative and its subsidiary, we can not

understand cooperatives movement in the market. FagorBrandt was forcibly driven into bankruptcy involved a trouble of FED cooperative. Prime cause of bankruptcy of FagorBrandt is that the blood circulation of the raising of money from FED broke off or "having severed the bridge", le monde wrote. A holding company has the strong controlling power to its subsidiary company. If it stood in cooperative principle, FagorBrandt should have been based on decision-making centering on their employees. FagorBrandt should have took social dialogue with labor union. Repayment of the financial deficit of 170 million euros of FagorBrandt might be raised from various means. If FagorBrandt was not subsidiary or had independent decision making, FagorBrandt could continue their business. They are what is called chain reaction bankruptcies.

Bankruptcy of FED is having determined not supporting financially any more MCC. Although MCC was covering a deficit of FED in 300 million euros till then directly. There is no telling whether this determination was good or bad, well at present. However, in fact, MCC decided to shut down of FED at the MCC executive board meeting on October 23, 2013.

On the other hand, the Basque government and some management of FED wished continuation of FED against MCC decision. We do not know how much MCC itself is considered about the influence of bankruptcy spread over sphere of cooperative. The external factor of judgment that bankruptcy is not avoided is as follows.

- (1) Europe household appliance market drop.
- (2) The global economic crisis in 2008 and afterwards.
- (3) Saturation of home-electronics demand,
- (4) change of consumer needs,
- (5) Cooperative disadvantage in competition with a capitalism company: factory relocation, personnel reduction, a raising of money, labor conditions, decent work

#### 11. How a cooperative goes bankrupt

. However, since other home electronics makers have not gone bankrupt, why only FED went bankrupt and left from a market? Between a capitalism company and a cooperative company, there exists different response to external factors. It is easy to say that the cooperative lost in competition of price against other competitors. Firstly, a cooperative cannot easily apply layoff and wage cut for workers. This is one of essence of cooperative principle. Secondly, a cooperative cannot easily remove their factory to foreign country where labor cost is cheaper. It concerns a mission of

cooperative to their community development. Especially in the case of Basque country. Thirdly, FED had adopted the foreign expansion strategy and big investment strategy even after 2007 recession of Lehman Brothers Bankruptcy shock. This is management failure of a cooperative.

To call off price competition, FED avoided production of cheap barrelful products, adapted the strategy of focusing products with higher added value and targeted the specific consumer layer, like its capitalism competitors. Pressure of falling into the bog of a bargain sale battle from the cheap products by Asian home electronics makers was equal to all European manufacturers. So, it cannot say only FED had a fatal defect in the diversification strategy of customer needs. FED did not produce television but produced products based on a life culture pattern such as white things, a refrigerator, washing machine, small home appliance products, and kitchen products. These products are not especially the product fields which Asian maker's favorite. Then, does the cooperative principle of not lowering labor cost serve as big restrictions? When it becomes so, it will be said that the production field in which a cooperative cannot be engaged in so called bargain sale industry. However, the international division of labor of production is premised on the wage differential in the world. Therefore, do not simplify and argue about advance of the overseas factory of a company, and the problem of exploitation of labor. With relationship of the overseas expansion of a company and decline of domestic industries as a problem of the domestic labor market, the fact of no uniform wages in the world are important factors also for a cooperative. We cannot discuss uniformly the problem of the exploitation in labor existed in capitalism company and a cooperative company.

Therefore, do not carry out applying this to the problem of the labor in a cooperative simply. The validity of a cooperative having a subsidiary in a foreign country is frequently considered in the negative from a thought that the cooperative is belong local community. However, is a cooperative unrelated and can be in economic globalization having brought about globalization of the relocation of a company? Then a cooperative will say that it has not turned to a globalization problem and will say that it is economic one-country-like business unit. It only carries out reflecting the actual condition that many people limit and live in a domestic area, and the sphere of activity of a cooperative becomes very determinative, because many of products which the people enjoy are imports. Conventionally, many of cooperative methods limit the kind of cooperative, and they make the sphere of activity specific. That is because many of cooperative methods are made by the era of before globalization. Therefore, whether the working class can join globally whether a

cooperative can join globally, must develop a theoretical subject for a cooperative. MCC has challenged globalization as a cooperative. The many industrial cooperatives were successful. However, FED went wrong now. Can't the cooperative be adapted for globalization after all? That is not right. FED is a pioneer of globalization of a cooperative, and it is a network of the global enterprises of a cooperative that the cooperative world is not having. FED, like *Cordoba, lejana y sola*. FED has isolated and done it best. If there exists a social economy company network in the field of home appliance market globally, FED might not need to choose bankruptcy. Or an industrial cooperative must survive in the fields outside of mass production and consumption market. Certainly FED has produced a series of small units of domestic products such as a refrigerator responding consumer's needs. Globalization of a cooperative sector or social economy sector is inevitable to survive in future. In financial, industrial, distribution, service and industrial sectors, a cooperative must seek making global networking in future. A cooperative must run both in local community and global community as one of pillars of social solidarity economy sector. A Cooperative is a human orienteering company. Because the important thing is not keeping a going concern but keep decent work or creating employment and workplace in the various field of which a cooperative run well based on cooperative principles.

To survive an enterprise by lay off is bad manner of capitalism. Capitalism neglects their unemployed. Public security system saves the unemployed. MCC has own security system for their worker members. One of the most important mission of a cooperative sector is to create job or work. Bankruptcy of cooperative is happened by inner factor and/or external factor. But important thing is to create and keep employment.

## 12. Cooperative and stakeholder

Commercial court of San Sebastian process FED cooperative and Edesa cooperative located in Basque country. For two factories of FED, Eskoriatza -- a kitchen household appliance making, and Garagarza -- kitchen equipment etc. making, CATA Group of Catalunya wishes to purchase for 16 million euros (it will be 90 million euros in four years) (El pais, junio 29,2014). CATA group promise to secure 520 persons' employment. CATA Group is carrying out household appliance sale by a brand called Cata, Nodor and Apelson. CAN established in 1947, has a factory in Catalunya, and in Brazil and in China, and exporting to 86 countries. At present, whether two factories

of FED are permitted to buying over by CATA by the Commercial court has undecided. CATA is not a cooperative.

Even if FED is liquidated, many worker members can change of job and keep income within MCC based on solidarity function in MCC group. However, some worker members will be employed by CATA as a wage worker. It may be the beginning of another story at it. For MCC, they must look sideways at capitalism enterprise converted from a former FED cooperative in the town of Mondragon every day. Probably, this is defeat for MCC clearly. That is, when it continued in another form, the idea that the choice of continuing as a cooperative company was possible must have occurred anew. We find in the articles of bulletin TU Lankide of MCC that when FED decided to opt for select bankruptcy, at first, some reports relevant to FED problem showed their confident of continuation of FED. From November 2013, when a commercial court started liquidation procedure, reports concerning FED in TU Lankide have been decreased considerably till now time. That is, the initiative of problem solving will already leave from MCC and will be left to the commercial court. It is a new problem how a cooperative should respond to the function not to demonstrate the initiative of a cooperative at the time of liquidation of a cooperative. Surely, although the solidarity function inside MCC will fully fulfil, the portion which is not covered by it comes out. It will be the problem that a cooperative cannot demonstrate sufficient initiative to the involvement or responsibility for many stakeholders other than members if it carries out from the stakeholder theory of a cooperative. Stakeholders can assert a right only in the qualification of a creditor legally in the case of bankruptcy of a cooperative. In the ex post facto processing after bankruptcy, the cooperative cannot perform a cooperative principle. Specifically, it is a problem to the individual financial investor (or financial members, except financial institution), the retirement members, worker nonmembers (wage workers), subsidiary and its wage workers, subcontractors, and its workers, of a cooperative. What responsibility and duty does FED have to them? Who can decide the contents? Furthermore, moral obligation may also become a problem.

Generally speaking, when a cooperative expands an enterprise, it needs to efforts to plot consideration about a legal system and problems also including a non-cooperative domain. It must not limit concern only to the matter of the systems of a cooperative. It will be necessary to specifically extend and think by a range called a social solidarity economy sector.

For whole MCC, the failure of FED itself may be able to be absorbed by expansion of the future new business field about a revivification of a workers and the business in

the MCC group. So, we can say that bankruptcy of FED is not a crisis of MCC or failure of MCC. The lesson of a failure of FED for a cooperative movement is that a cooperative must not consider only the matter of its cooperative. It also must take a stakeholder's existence into consideration.

### 13. Should MCC continue cash injection to FED?

Whether it was good or bad that Judgment of stop of the financial support from MCC group to FED? The Basque government, the Gipuzkoa province government and Vizcaya province government wished bankruptcy evasion of FED. Moreover, the management of FED also considered continuation at first. The four-year plan of FED of December 2012 showed it. One year after in November 2013, MCC executive board decided to stop financial support for FED, so FED also decided bankruptcy. But a choice called stopgap measure of financial support by MCC, and authorities and institutions must also have been possible.

Of course, now, it is the argument on "historical if." It is because the difficult problem how to repay the cumulative deficit 800 million remains. However, although a problem cannot specifically be pointed out, it will be necessary to consider more widely whether there was any cooperative solution. That is because EROSKI is also faced with the same structural problem. The structure of EROSKI is what is called a three-layer contexture. That is, the first layer of a core has a cooperative, the second layer has a social economy company, and a subsidiary (capitalism companies) exists in the third layer. Employees are also classified with the member workers of a cooperative, the workers of a social economy company, and a common wage earner. EROSKI also has been developing the market expansion route in enterprise. The same problem as FED may occur in EROSKI group. Probably, it will be then important whether they solve the problems by what kind of cooperative correspondence in the future.

### 14. Initiative of a cooperative

In June 2014, FED has entered in the process of the insolvency procedure by the commercial court of San Sebastian (June 29, Radio Bilbao, Cadena SER). Sustentation of the initiative of a cooperative will be difficult and independent reconstruction in the liquidation process of a cooperative will be also difficult. A cooperative must admit the initiative of judicatories and trustees and will lose capacity of being a party remarkably. That is, the determination by the exterior of a cooperative will be

entrusted and the self-determination by a cooperative becomes impossible.

## 15. Conclusion

It is only what is said after a problem occurs. FED had declined to dependence to MCC. Therefore, FED had continued the bold business expansion route. FED should have taken the business contraction measure by the cooperative business restructuring scheme from 2009 after the financial crisis 2007'2008 (Bankruptcy of Lehman Brothers). For that purpose, MCC should have advanced examination of not only a cooperative principle but also the value as a social economy company, to develop missions, and business in whole MCC. To prevent another fail, it needs to strengthen appropriate measure of social economy by the MCC solidarity system.

Probably, MCC can expand in the other industrial fields and new innovate technology field. It will be necessary to carry out the self-definition further as a social solidarity economy sector widely. The workers of a workers' cooperative are protagonists of a company, also when good and when bad, they are owners of a cooperative. Since it is a stakeholder type company, there is also large social responsibility. It will be necessary to also consider collaboration or partnership with a state government, province authorities, etc. in respect of reservation of local employment. It is necessary to deepen research for the cooperative sector and the social solidarity economy sector to correspond to globalization. FED disappeared, but Fagor group is developing as a cooperative group in global market.

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