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Dragonomics

A Cooperative Strategy For Economic
Transformation in Wales

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Dragonomics: A Cooperative Strategy for Economic Transformation in Wales

A briefing note from Cadbury and Jones

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Introduction

The Mondragon Corporation, located in the Basque Country of Spain, has long been a standout example of a successful cooperative model that has not only withstood economic challenges but thrived through a combination of innovation, worker ownership, and regional economic autonomy.

Mondragon's transformation from a small cooperative in the 1950s to a global business conglomerate is both inspirational and instructive, especially when examining its relevance for other regions seeking economic renewal. This briefing note explores how the Mondragon model has been successfully adapted in different countries and regions, with a particular focus on how its principles could be applied to Wales to drive economic growth, prosperity, and social equity.

The Mondragon Corporation: A Model for Success

Background and Origins

Mondragon's story begins in the 1950s¹ in the Basque region, a period when many of Spain's industrial areas were facing severe economic decline. Founded by Father José María Arizmendiarieta, Mondragon was built on the principle of worker ownership and cooperative governance, where employees collectively owned the businesses they worked for, participated in decision-making, and shared in the profits. Today, Mondragon is a federation of 92 cooperatives spanning multiple sectors², including manufacturing, retail, finance, and education, with a workforce of more than 70,000 people.

Challenging Misconceptions³

Worker-owned co-operatives are often dismissed as inefficient or limited to niche sectors such as organic grocery stores and artisan bakeries. At a 2019 conference, economist Larry Summers argued that co-operatives are inherently slow-growing, stating: "When you put workers in charge of firms and you give them substantial control over the firms, the one thing you do not get is expansion."

Mondragon proves otherwise. In addition to manufacturing, its businesses include schools, a large grocery chain, a catering company and 7 technology R&D centres, generating over €11 billion in revenue in 2023. The collective enforces nearly 400 patents and employs 2,400 full-time researchers. With its subsidiaries in China, Germany, and Mexico, Mondragon competes globally, securing contracts with companies like General Electric and Blue Origin.

Far from being a small-scale experiment, Mondragon demonstrates that co-operatives can scale, innovate, and thrive in competitive markets.

Key Success Factors

- **Worker Ownership:** The Mondragon model ensures that employees are not just workers but also owners. This sense of ownership motivates workers to be more invested in the success of the business, leading to higher productivity, commitment, and job satisfaction.
- **Democratic Governance:** Every cooperative within the Mondragon group operates under democratic governance, where decisions are made collectively, and all workers have a say in the direction of the company.
- **Financial Ecosystem:** One of Mondragon's distinguishing features is its own financial system, which includes Laboral Kutxa, a cooperative bank that provides financial support to its member cooperatives². This self-sustaining financial system allows the cooperative network to thrive without relying on external capital sources that could undermine its worker-centric values.
- **Educational Investment:** The Mondragon University, established in the 1990s, provides specialised education to workers and entrepreneurs, reinforcing the importance of skills development and innovation as part of the cooperative ecosystem.

Global Adaptations of the Mondragon Model

The success of Mondragon has inspired similar initiatives worldwide, with varying degrees of success. These adaptations offer valuable insights into how the cooperative model can be implemented in different contexts, each with its own unique economic, political, and social conditions.

1. Evergreen Cooperatives in Cleveland, Ohio (USA)

Inspired by Mondragon's model, the Evergreen Cooperatives were established in Cleveland with the goal of revitalising economically distressed communities through worker-owned businesses. Evergreen operates businesses in green energy, urban agriculture, and green laundry services, all of which are focused on providing stable jobs for low-income workers while providing their services to anchor institutions such as universities and hospitals.

Success Factors:

- **Anchor Institution Strategy:** Similar to Mondragon's focus on serving local markets, Evergreen has partnered with institutions that provide steady demand for services, ensuring stability for worker cooperatives.
- **Challenges:** Despite initial success, Evergreen faces challenges in scaling up due to limited access to capital and the need for a stronger cooperative culture in the U.S.⁴.

Lesson for Wales: Like Cleveland, Wales has large anchor institutions, such as universities and hospitals, which could serve as stable customers for worker-owned businesses. Establishing a network of worker cooperatives catering to these institutions could provide a sustainable path for economic regeneration in Wales' more deprived areas.

2. Emilia-Romagna Region, Italy

The Emilia-Romagna region of Italy is known for its vibrant cooperative sector, which includes both worker and consumer cooperatives. There are around 4,000 cooperatives in the region that employ 250,000 people⁵. The region has developed a robust network of small- and medium-sized cooperatives that contribute significantly to its local economy.

Success Factors:

- **Collaborative Ecosystem:** Emilia-Romagna has fostered a strong network of cooperatives that support each other through collaboration rather than competition. This ecosystem provides stability and encourages knowledge sharing among businesses.
- **Government Support:** The Italian government, through the Marcora Law, has provided financial support for worker buyouts, allowing workers to take over failing businesses and run them as cooperatives.

Lesson for Wales: The success of Emilia-Romagna highlights the importance of government policies that support cooperative enterprises. Wales could consider developing policies similar to Italy's Marcora Law to facilitate worker buyouts and the creation of new cooperatives, particularly in industries facing decline.

3. Quebec, Canada: The Desjardins Group and Worker Co-operatives

Quebec's cooperative sector is well-established, led by the Desjardins Group in finance⁶ and extending into agriculture and retail.

Success Factors:

- **Cultural Alignment:** Quebec has a strong cooperative tradition, and its culture of solidarity has contributed to the success of worker-owned enterprises.

- **Access to Financial Support:** The Desjardins Group provides financial services to cooperatives, helping to ensure that these businesses have access to the capital needed to grow and succeed.

Lesson for Wales: Wales, with its strong sense of community and shared identity, could benefit from fostering a culture of cooperation. Moreover, establishing a financial cooperative to support worker-owned businesses could provide the capital needed for growth and sustainability.

Why This Matters for Welsh Businesses

Integrating worker-owned cooperatives into the Welsh business landscape offers substantial commercial benefits. In times of economic uncertainty, employee ownership enhances financial resilience, boosts employee retention, and promotes long-term sustainability. Research indicates that worker-owned companies often outperform their non-worker-owned counterparts in areas such as productivity, pay, job stability, and firm survival⁷.

For Welsh SMEs, adopting cooperative principles could:

- **Increase Resilience:** Worker-owned businesses tend to reinvest locally, making them less susceptible to economic fluctuations.
- **Attract Investment:** There is a growing interest from social impact investors and ethical finance institutions in supporting worker-owned enterprises. Notably, over half of the employee ownership funds operating today were established within the last decade, highlighting the sector's growth and appeal to investors⁸.
- **Improve Employee Retention:** Ownership incentives are linked to higher staff engagement and lower turnover rates. Studies have shown that worker-owned firms experience increased productivity and innovation, leading to enhanced profitability and longevity⁷.
- **Support Succession Planning:** For business owners approaching retirement, transitioning to a cooperative offers an alternative to selling to private equity or closing down, ensuring the business's continuity and preserving jobs.

Moreover, there is a growing opportunity for professional services firms—including accountants, business advisors, and legal consultants—to support this transition. Specialist guidance in cooperative governance, tax structuring, and financing will be crucial to helping businesses successfully adopt this model.

By embracing the cooperative model, Welsh businesses can enhance their competitiveness, contribute to local economic development, and foster a more equitable and resilient economy.

Potential Application of the Mondragon Model in Wales

Wales, with its challenges of economic inequality, rural poverty, and reliance on traditional industries, could benefit significantly from adopting elements of the Mondragon model. Several key factors make the Welsh context conducive to cooperative development:

1. **Strong Local Identity and Community Spirit:** Like the Basque Country, Wales has a strong sense of local identity and pride. This could be harnessed to build a cooperative culture that values collective action and shared prosperity.
2. **Devolution and Economic Autonomy:** As Wales continues to gain greater powers through devolution, there is increasing potential to tailor economic policies that support local businesses, including worker-owned cooperatives.
3. **Declining Traditional Industries:** As Wales faces challenges in sectors like coal mining, steel manufacturing, and agriculture, cooperatives could provide a model for revitalising these industries through worker participation and innovation.
4. **Renewable Energy Potential:** Wales has abundant natural resources for renewable energy, particularly wind and tidal energy. Worker-owned cooperatives could play a role in developing these industries and providing local communities with stable, well-paid jobs.

Aligning with Welsh Government Priorities

The Welsh Government has long prioritised economic resilience, community wealth building, and sustainable development, as reflected in policies such as the Well-being of Future Generations Act (2015) and the Foundational Economy initiative. A Mondragon-style cooperative model aligns strongly with these objectives by promoting long-term local ownership, reducing economic leakage, and fostering regional self-sufficiency.

Additionally, cooperatives offer a mechanism for preserving key industries, particularly in communities facing economic decline. A structured approach to worker buyouts—similar to Italy’s Marcora Law—could enable employees to take control of failing businesses, preventing job losses and ensuring local economic stability.

Cooperatives can also play a key role in Wales’s decarbonisation strategy, particularly in the renewable energy sector. Community-owned wind and tidal energy projects could generate local jobs, reinvest profits into Welsh communities, and help achieve Net Zero targets by 2050.

For these reasons, a comprehensive cooperative development strategy should be a key pillar of Wales’s economic policy, particularly in sectors such as energy, local manufacturing, and social care.

Key Steps for Implementation:

1. **Policy Support:** The Welsh Government could create policies that encourage the development of cooperatives, including incentives and financial support for worker buyouts.
 2. **Capacity Building:** Developing a cooperative education and training framework, similar to Mondragon University, could help build the skills needed for successful cooperative governance and management.
 3. **Financial Infrastructure:** Establishing a dedicated financial mechanism to support worker cooperatives—either through a new institution or by giving the Development Bank of Wales a specific mandate—would provide essential capital for cooperative growth. By prioritising tailored loans and investment for worker-owned enterprises, Wales could foster a more resilient and sustainable cooperative sector, similar to Mondragon’s Laboral Kutxa.
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Conclusion: A Path Forward for Wales

The Mondragon model offers valuable lessons for Wales in its quest for economic transformation. By fostering worker ownership, cooperative governance, and regional economic autonomy, Wales could create a more resilient and equitable economy. The successful adaptation of Mondragon’s principles in regions such as Cleveland, Emilia-Romagna, and Quebec demonstrates that this model can thrive in diverse contexts, providing a compelling blueprint for Wales to follow. With the right policies, infrastructure, and cultural support, Wales could harness the power of cooperatives to revitalise its economy, reduce inequality, and ensure sustainable growth for future generations.

References

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