

REACTION ON MCC PRESENTATION

Dear Marc, Deb, Dan and John

For you information I am sharing my initial impressions of my visit to the MCC that may be suitable for being more widely shared subject to the response from Adrian.

Regards

Shann Turnbull

Date: Sun, 01 Dec 2002 12:19:36 +1100
To: Adrian Zelaia
From: Shann Turnbull <sturnbull@mba1963.hbs.edu>
Subject: Verification of MCC facts and impressions
Cc: Mikel Lezamiz, Fred Freundlich

Dear Adrian

Thank you very much for your public presentation and private conversations at the EFES conference on Friday November 22. I look forward to obtaining an electronic copy of your power point presentation in due course from Marc Mathieu.

I would like to post a report on the COG Mondragon discussion list on the latest developments of the MCC. COG have posted in their virtual library a copy of my case study on the MCC that is based on information that is now ten years old. Refer to 'Innovations in Corporate Governance: The Mondragón Experience', *Corporate Governance: An International Review*, 3:3, 167-180, July, 1995, Blackwell, Oxford. Full text at <http://cog.kent.edu/lib/Turnbull6.htm>.

For your reference my own presentation on Friday November 22 used this ten year old information and was based on two of my other papers that your colleague Mikel Lezamiz downloaded into his computer to allow them to be shared with those at the EFES conference. They were 'Grounding sociology in cybernetics', presented to the Research Committee 51 in Socio-cybernetics, Session 5, New paradigms for understanding society, XVth World Congress of Sociology, International Sociology Association, Brisbane, Australia, July 13, 2002 <http://ssrn.com/abstract_id=321203> and 'The science of corporate governance' *Corporate Governance: An International Review*, 10:4, 256-72, October, 2002 <http://ssrn.com/abstract_id=316939>. The full text of the an electronic copy of my 2002 public policy pocket book that I presented to you Mikel, and Fred Freundlich on *A New Way to Govern: Organisations and society after Enron* that uses the MCC as a model can be obtained from <http://ssrn.com/abstract_id=319867>. The academic working paper from which it was developed that includes references, figures and tables has the truncated name of *A New Way to Govern* is at <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=310263>. This paper was developed from a longer paper on 'Design criteria for a global brain', The First Global Brain Workshop (Gbrain O), Vrije Universiteit Brussel, Brussels, Belgium, Thursday, July 5, 2001. <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=283715> Video of presentation linked to <<http://www.comdig.de/Conf/GB0/pr010705327.html>>.

The facts that I would like to confirm with you concern six fundamental changes I have listed below that seem to have incurred during the last ten years:

1. Growth is now achieved more by buying new firms rather than by making new firms.
2. As a result around half the 60,000 people working in the MCC are not members but employees
3. Commercial imperatives and values now over-ride the original social objectives and values of creating satisfying work.
4. As a result at least a third of all firms now have shareholders who are not individuals

5. The size of firms is no longer limited to around 500 workers
6. It is the MCC not the Cajal Laboral that establishes the contact of Association of member firms.

Please comment on my speculation that:

1. These changes seem to have facilitated the rapid growth of the MCC in recent years.
2. The commercial imperative to buy firms rather than create them according to social objectives would appear to over-ride the four values listed in the MCC 2001 Annual Report of Cooperation, Participation, Social Commitment and Innovation.
3. The original social integrity of the MCC is being diluted, debased, and degraded because the contract of Association does not control member firms from investing in subsidiaries and associated firms.

Jose Arizmendiarieta is famously quoted of explaining the process of inventing the Mondragon cooperative system as "Building the road as we travel". It would seem that the time has come for the MCC to "Rebuild the road that it travels" if it is not to degenerate into just another multinational enterprise with a minority of employee ownership.

I appreciate that the MCC report might not be produced for members but for commercial partners in the same manner that the film you showed us. But may I assume that the above six facts are available to all members to share my concerns?

The reason for asking this question is that these facts are not made explicit in the English version of the MCC 2001 Annual Report that you kindly presented to us. While the MCC report does not need to meet the standards of disclosure and transparency of statutory reports to shareholders of publicly traded companies I found that the MCC report compared unfavorably with them in this regard. Indeed, the English version would appear to be misleading in a couple of places.

For example, the President of the General Council reported in his opening paragraph on page 6 that "our Corporation's companies performed reasonable well, achieving a 14.7% increase in sales together with 6,800 new jobs". I suspect that many of these "new" jobs were not created as might be inferred but acquired from the inclusion of new affiliates into the group that had already created the jobs?

On page 44, firm ownership of Aro Leasing and Caja Laboral are not disclosed while firm ownership was disclosed for 51 of the other 155 bodies listed on the following pages. Might there be a report in English which lists the ownership of all bodies in the group, their equity, turnover, total assets and the number of employees in each that you might be able to share with me please? Is such information shared with members of the MCC Congress?

The MCC report makes no disclosure on remuneration and related party interests of the members of the General Council listed as they would be in a report of publicly traded company. You also mentioned that share ownership has been introduced in some affiliates rather than common ownership as was the practice in the past. There was no disclosure of this practice and I would welcome any information that might be available in this regard. Do some firms have both common ownership and share ownership and if so are details for each firm available?

My own suggestion for rebuilding the road the MCC is travelling is to amend its contract of association with member firms that I have described in my writings as the "DNA" of the cooperative system initiated by Arizmendiarieta. The contract needs to prohibit any member firm making an investment in another firm unless it either adopts the type of constitution that is currently used in MCC common ownership firms or such other type that may be approved by the MCC.

I would like to suggest that firms that adopt a constitution to make them Ownership Transfer Corporations become an approved form provided that the transfer of all non individual ownership in the firm is made within 10 to 20 years without payment to the individual citizens in the host community that are suppliers, workers or customers or employed by suppliers and customers. In this way the MCC could provide an example to the world of how to use the forces of globalization to localize the ownership and control of commerce and enrich democracy and the quality of life. It is the basis for a proposed "Global Community

Investment Code" that I am working on as a follow up project for COG.

You will find details of this proposal in my papers 'Should Ownership Last Forever?', *Journal of Socio-Economics*, 27:3, pp. 341-363, 1998
<http://papers.ssrn.com/paper.taf?abstract_id=137382> and 'Stakeholder Governance: A cybernetic and property rights analysis', <<http://cog.kent.edu/lib/turnbull6/turnbull6.html>> pp. 401-13 in *Corporate Governance: The history of management thought*, R.I. Tricker, ed, Ashgate Publishing, 2000, London.

My best regards

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