Can employee ownership and HRM policies clash in worker cooperatives? Lessons from a defunct cooperative

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This is the peer reviewed version of the following article:

Basterretxea, I.; Heras-Saizarbitoria, I. and Lertxundi. A. (2019): Can employee ownership and HRM policies clash in worker cooperatives? Lessons from a defunct cooperative. Human Resource Management, In Press. [DOI: https://doi.org/10.1002/hrm.21957]

The copy-edited version is available at:

https://rdcu.be/bnPoN

Abstract

The article analyzes the interaction between employee ownership, HRM policies and practices and HRM outcomes in what was the world's biggest industrial worker cooperative for decades and now defunct Fagor Electrodomésticos. Using longitudinal internal data and detailed interviews with key stakeholders, this paper sheds light on how employee ownership conditioned HRM policies. HRM outcomes – such as job satisfaction and absenteeism – are also analyzed over a long period of time. Chronic nepotism when recruiting new members, failures in the training policy, impoverished and Taylorist working systems and reverse dominance hierarchies are analyzed as factors that increased free riding and caused low satisfaction and the disengagement of working members. This case study contributes to the literature on HRM and worker cooperatives as it provides some insights that are rarely found in that literature. It also gives guidance to worker cooperatives about increasing the fit between employee ownership and HRM policies and outcomes.

Keywords: Absenteeism; Satisfaction; Employee participation; Conflict; Attitudes: Recruitment; Culture and climate; Worker Cooperatives; Employee Ownership;.

'The form of association, however, which if mankind continues to improve, must be expected in the end to predominate, is not that which can exist between a capitalist as chief, and work-people without a voice in the management, but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves'

John Stuart Mill, Principles of Political Economy, 1852 (p. 772).

Introduction

Collective ownership by employees has been on the agenda of economists, managers, philosophers and policy makers for many years as indicated by the opening citation from English philosopher and political economist John Stuart Mill. The theoretical positive expectations of employee ownership (e.g. Pierce and Furo, 1990; Pierce et al., 1991; Rousseau and Shperling, 2003) and its empirical outcomes (e.g. Hammer et al., 1981; Long, 1982; French and Rosenstein, 1984; Kruse and Blasi, 1995; Kruse, 1996, 2002) have also been discussed at some length in the scholarly literature over recent decades. Yet, with some exceptions, little consideration has been given in most of the work to the embeddedness of employee ownership policies within Human Resource Management (HRM). As a result, there are important research gaps. For example, whether, for the success of the shared project, the employee owners should or should not have a substantive 'voice in the management' - to use Mill's words. Or in a similar vein, drawing on the quotation, what would be the real implications of working under managers elected and removable by employees?

A growing number of researchers (Kaarsemaker and Poutsma, 2006; Blasi et al. 2013) have emphasized that the employee ownership perspective should be integrated into a coherent HRM framework. Potential complementarities and clashes between employee ownership and HRM policies and practices such as recruitment, evaluation and compensation need to be researched more deeply. In order to elucidate these under-researched issues in employee ownership it could be wise to focus on the long-standing and rich experience of fully employee-owned firms such as worker cooperatives. Worker-cooperatives are work organizations whose membership is restricted to those who work in them and that are owned and controlled by their workforce (Cornforth, 1992). These organizations are different from other forms of employee owned organization because they are organizations in which participation is supposed to be most extensive and regular and therefore have most impact on individual members (Wanjare, 2017). Similarly, in the scholarly literature (e.g. Rothschild, 2009; Cheney et al., 2014; Pencavel, 2013; Pérotin, 2014) it has been underlined that worker-cooperatives have more potential than other forms of employee ownership to contribute to democratic management, worker participation, more egalitarian earnings and a balanced generation of income and wealth, among other aspects. The impact of worker cooperatives in some European countries, such as Spain, with over 18,000 worker cooperatives and 221,844 jobs, is very significant (Vieta et al. 2014), but the study of those organizations can also provide useful insights and learning opportunities to firms of other countries where the worker cooperative is a fringe player, but where many organizations are willing to promote employee ownership in other forms.

Taking into account the gaps in the literature, this article analyzes potential clashes and misfits between ownership and HRM policies and practices in worker cooperatives. To that end, the case of a fully employee-owned firm is studied in depth – the now defunct Fagor Electrodomésticos. Before its demise in 2013, Fagor Electrodomésticos was the world's biggest industrial, worker-owned cooperative, and Europe's fifth-largest maker of houselhold appliances. This firm was part of the Mondragon Cooperative Group in Spain, a highly diversified business group that in 2017 incorporated 98 cooperatives, 143 subsidiaries, 80,818 employees and a turnover of €11,936 million (Mondragon, 2018a). Mondragon has also been one of the most studied cooperative experiences in the world (Sun, 2003; Abrams, 2008) and Fagor Electrodomésticos its most studied single cooperative due to its size and its symbolic role as a model over six decades and as a launching platform for many other Mondragon cooperatives.

While worker cooperatives are more likely to survive than conventional firms (Burdin, 2014; Roelants et al.,2012), failures of large scale cooperatives in recent decades, such as the cases of Fagor in Spain, the Saskatchewan Wheat Pool in Canada (Fulton and Larson, 2009) and the near meltdown of the Cooperative Group in the UK (Davis, 2013), offer opportunities to learn from these failures. Although this paper focuses on HRM issues, there were many other strategic errors, governance problems and environmental factors that explain Fagor's demise. Shedding light on the HRM factors and policies that contributed to the demise of Fagor Electrodomésticos provides an opportunity for other companies to learn from their experience and devise strategies to avoid the same fate.

This article contributes to the scholarly literature in several ways. First, the work provides empirical evidence of potential clashes and misalignment between "fuller" forms of employee ownership and HRM policies and practices. Second, the analysis complements the existing literature on worker cooperatives by reporting the reasoning used by different key stake-holders to account for HRM policies and their effect on employee attitudes and behaviors. This helps to explain the cooperative model and its complementarity with other HRM policies. Third, it also contributes to the rigorous analysis of HRM policies in relevant cooperative experiences such as Mondragon, which scholars have tended to view in a rather idealized way and which has not received in-depth analysis of management policies (Heras-Saizarbitoria, 2014).

The paper is organised as follows. The next section reviews the literature related to understanding some HRM specificities in employee-owned firms, with a special focus on the specific case of the fully employee-owned organizations - i.e. cooperatives. The review sheds light on how these factors can contribute to different attitudinal and behavioral responses of workers. This is followed by an outline of the research methods used in the project reported here, including a brief profile of the case-studied organization. The next section summarizes the results of the field-work. The final section is devoted to discussion and conclusions.

Literature review and research question

Empirical studies on the effects of employee ownership on employee attitudes and behaviors increasingly stress the importance of complementing employee ownership with high-performance HRM policies in order to generate higher commitment (Blasi et al. 2008 Kaarsemaker and Poustma, 2006; Kruse et al, 2004, 2010; Kurtulus and Kruse, 2017, among others). Some authors (Kruse et al. 2004, Freeman et al. 2010 and Caramelli, 2011) also stress the importance of developing a corporate culture that combats free-riding to increase commitment in employee owned firms.

When it comes to HRM practices in Mondragon worker cooperatives, previous research has mainly focused on Mondragon's employment policy in times of crisis (Arando and Arenaza, 2018; Basterretxea and Albizu, 2010; Bradley and Gelb, 1987; Hoover, 1992; Landeta et al., 2016; Smith, 2001). Mondragon's employment policy is characterized by the use of flexible work schedules, flexibility in salaries, flexibility of job duties performed by the members of each cooperative, and the relocation of members from cooperatives in crisis to those cooperatives in need of manpower. Thanks to those flexibility measures, researchers conclude that the Mondragon cooperatives have been able to overcome different economic crises, enjoying a lower failure rate than their competitors. As highlighted by Basterretxea and Storey (2018), researchers have largely ignored the possible negative effects of wage cuts and other labour flexibility measures of worker cooperatives on employee-owners' attitudes and their behaviour.

Some researchers have also focused on Mondragon's training policy as a way to attract, develop and retain valuable human resources, mainly technicians and managers (Basterretxea and Albizu, 2011a, 2011b).

Since Mondragon cooperatives experienced huge international growth through the acquisition or creation of investor owned firms in foreign countries, recent research has focused on how HRM practices have been diffused to non-cooperative subsidiaries (Bretos et al. 2018).

There has been a tendency in the academic literature on worker cooperatives to idealize this type of organization (Heras-Saizarbitoria, 2014), and some limitations on HRM policies and some negative HRM outcomes that generate intense debate in worker cooperatives, have been ignored by academics.

While research is increasingly focused on HRM policies that complement employee ownership, additional research is needed to identify those HRM policies and practices which may clash or be misaligned with employee ownership. There is also a need for researching the existence and functioning of restrictions on HRM managers' action in employee stock ownership (ESO) firms and in cooperatives. The scholarly literature about fully employee owned organizations, such as of Mondragon's cooperatives, demonstrates that a set of HRM policies and practices may be strongly conditioned by employee ownership. Indeed, employee owners in this type of company have historically opposed many HRM practices, such as individual performance evaluations, pay-for-performance systems, or plans to increase salary differentials to attract and retain senior managers and technicians (Whyte and Whyte, 1988; Kasmir, 1996; Basterretxea and Storey, 2018). Moreover, certain HRM policies and practices that are taken for granted in the tradition of fully employee-owned firms such as cooperatives can run counter to the recommendations of the HRM literature and even clash with them.

The first clash often takes place in the Recruitment and Selection policy. Freedom of HR managers to apply desirable Recruitment and Selection policies and practices can be severely restricted in worker cooperatives. Nepotism and cronyism in recruitment of new members has been frequent in different cooperative firms and other collectivistic organizations, from the Israeli Kibbutz (Van den Berghe, P. L., & Peter, K,1988), French industrial and agricultural cooperatives (Pasquet and Liarte, 2012; Juban et al. 2015), and Australian consumer co-operatives (Balnave and Paltmore, 2005), to American cooperatives (Rothschild and Whitt, 1989).

Researchers on worker cooperatives have ignored the economic, attitudinal and behavioural effects of nepotistic recruitment policies. Such effects have been studied in the literature on family firms, a literature that underlines some positive effects of nepotism, such as drawing on existing worker knowledge of applicants to reduce the adverse selection problem, improving communication, sharing similar values, fostering a positive family-oriented environment and developing and passing tacit knowledge (Bellow, 2003; Ford and McLaughlin, 1986; Dailey and Reuschling, 1980; Le Bretron-Miller and Miller, 2015). Some researchers show that, in family businesses, nepotism has a positive effect on performance, especially when generalized social exchanges are critical to firm performance (Firfiray, Cruz, Neacsu and Gómez-Mejía, 2018; Jaskiewic, Uhlenbruck, Balkin and Reay, 2013). Nevertheless, the literature remarks more negative than positive effects of nepotism on several aspects of people management, including adverse selection, with less qualified workers receiving preference, lower job satisfaction, intention to quit, negative word of mouth, job stress, dysfunctional conservatism and strategic involution (Arasli et al., 2006; Arasli and Tumer, 2008; Ford and McLaughlin, 1986; Miller and Le Breton-Miller, 2015; Neacsu, Gómez-Mejía and Martin, 2017; Sidany and Thornberry, 2013). Nepotism can lead to perceptions of favouritism and inequity as well as job stress (Arasli and Tumer, 2008; Laker and Williams, 2003). This can impact negatively on the job satisfaction level. A lower level of job satisfaction, in turn, is reported to affect employee's propensity to leave the organization and to say negative things about their work (Hussain, Khan and Bavik, 2003; Mattila and Patterson, 2004). Similarly, nepotism is linked to weak competition among employees, lack of teamwork and a negative impact on the decision making process (Safina, 2015). Singh and Twalo (2014) suggest that nepotism implies a threat to an organization´s position in the labour market.

Overall, it seems that debate around nepotism remains inconclusive. It may be considered as a conflict of interest (Abdalla et al. 1998) with negative consequences, but it continues to be a global phenomenon and is present in every culture (Al-Shawawreh, 2016). While the effects of nepotistic recruitment and selection policies have generated intense managerial and social debate in Mondragon cooperatives in recent decades, previous research on Mondragon has ignored this issue. To the best of our knowledge, this is the first academic work analyzing this issue.

Restrictions in the Pay policy impose even further limitations on Recruitment and Selection policy in worker cooperatives when firms try to attract valuable and scarce human resources for managerial and technical positions. In fact, limited salary differentials between workers and managers can make it very difficult to recruit managers from Investor Owner Firms (Basterretxea and Albizu, 2011a).

HRM policies can be also conditioned by the cooperative "degeneration" process. The academic literature on employee-owned business has been dominated by the "degeneration thesis" (Ben-Ner, 1984; Bonin et al. 1993; Meister, 1984; Miyazaki, 1984; Webb and Webb, 1920). According to this view, cooperatives are bound to fail or to degenerate into capitalist forms of business. The most visible sign of degeneration is directly linked to the recruitment policy: the employment of a growing percentage of wage-labourers instead of members. HRM policies and outcomes can also be influenced by 'organizational degeneration' - a process that increasingly concentrates power and control in managers' hands - and by 'goal degeneration' - cooperatives increasingly prioritizing profits or growth as their prime purpose (Cornforth, 1995).

According to the degeneration literature, worker cooperatives often have a 'life cycle' in which degeneration takes place gradually. In a first stage, idealism and commitment are high, decisions are made in the assembly, but economic activity is poorly established; then, if the cooperative survives, conventional principles of organisation are adopted, indifference substitutes initial idealism and the power of management is reinforced; third, degeneration signs are many, democracy becomes restricted to a representative board and goal degeneration takes place; fourth, members and their representatives lose all their power and managers assume total control (Meister, 1984).

Despite the prevalence of the degeneration thesis, many authors (Batstone, 1983; Cornforth, 1995; Estrin and Jones, 1992; Hernandez, 2006; Storey et al., 2014) have argued that cooperative degeneration is not inevitable; cooperatives can also regenerate.

Some previous studies underline the historical difficulty of implementing individual performance evaluations and performance-based remuneration in some big Mondragon cooperatives, as Fagor itself or the retailer Eroski (Whyte and Whyte, 1988; Kasmir, 1996; Basterretxea and Storey, 2018). Difficulties in implementing performance evaluation and performance related pay can increase the risk of "free-riding", a problem that can be a major source of negative attitudinal and behavioral outcomes in employee-owned companies (Basterretxea and Storey, 2018; Bonin et al 1993; Klein, 1987; Kruse et al. 2004; McCarthy et al. 2010; Pendleton and Robinson, 2010;).

In order to shed light on the reasons for the misfit or misalignment of those HR practices (individual performance evaluations and performance-based remuneration) and employee ownership in worker cooperatives, the Model of Culture Fit (Aycan et al. 1999) can be especially valuable. This model postulates that the sociocultural environment affects the internal work culture, which in turn influences human resource management practices (Aycan et al. 1999).

Given that most researchers consider that employee ownership only produces positive attitudinal and behavioral responses if embedded in bundles of high performance HRM practices (Blasi et al., 2008; Caramelli, 2011; Kruse et al., 2010), and considering that potential clashes and misfits between HRM practices and employee ownership are under-studied, the following research question is formulated: *In what ways may employee ownership in worker cooperatives condition HRM policies and practices such that they negatively impact HRM outcomes?*

We address the research question by studying the case of Fagor Electrodomésticos, S.Coop..

Fagor Electrodomésticos S.Coop.: Summary Profile

A brief historical review of Fagor Electrodomésticos S.Coop (hereafter referred to as Fagor) is given in Molina (2012) and Errasti et al. (2016), but the key points are summarized here.

Before its decline and eventual closure in November 2013, Fagor had been the flagship of the Mondragon Cooperative Group, one of the largest industrial groups in Spain. At the height of its success in the household appliance industry in 2006, it was a multinational with 18 production plants in six countries (8 in Spain, 4 in France, 1 in Poland, 1 in Italy, 3 in China and 1 in Morocco), sales of 1,729 million euro, 6% of the European market and a workforce of 10,543 employees. Fagor was created in 1956 with a culture that emphasised the values of solidarity, self-sacrifice, democracy, concern for the welfare of the community and an organization in which the sovereignty of labour prevailed over capital (Molina, 2012). After a successful period in the Spanish market, in the late 1980s it began an international expansion into North Africa and Latin America. Between 1996 and 2001, it made major investments in its Spanish plants and entered a number of joint ventures with leading international firms. In 1999 Fagor bought the Polish white goods company Wrozamet. In 2005, it bought Brandt Electroménager, the French leader in household appliances. At one point it was the fifth largest manufacturer of household appliances in Europe after Electrolux, Whirpool, Bosch Siemens and Merloni (Molina, 2012). As happens with other Mondragon cooperatives, cooperative ownership was not offered to the employees of the foreign subsidiaries that Fagor acquired. In addition, close to 15% of the workforce in the parent company were temporary employees who had no ownership rights.

(Insert Table 1 about here)

The acquisition of Brandt was to mark a turning point in Fagor's history (Ortega and Uriarte, 2015). Because of difficulty accessing the capital market, the company financed its internal and external growth strategies through borrowing, with a negative effect on its books. When the financial crisis broke in 2008, the property market in Spain collapsed (in 2007 close to 700,000 new houses were built, but in 2013 and 2014 around 74,000 and 45,000 were built, respectively), together with the market for domestic appliances in Spain, the firm's most important market. Fagor's already difficult situation was further worsened by the emergence of new Asian competitors, leading to a sharp decline in Fagor's sales and margins. Measures such as liquidity injection by the Mondragon Corporation, staff relocations to other Mondragon cooperatives, early retirement and reductions in advances and salaries, were not enough to stave off bankruptcy proceedings.

Methods

The research was based on field-work based mainly on qualitative data obtained through in-depth interviews with a set of representative and reliable internal and external stakeholders of Fagor. Complementary to this, very extensive internal and external (public) corporate data related to Fagor over extended periods of time were analyzed.

Regarding the qualitative analysis, 25 interviews were conducted with a cross section of people involved with the cooperative in a variety of roles in order to try to increase the richness and the reliability of the information (Miles and Huberman 1994). Referencing and snowball sampling were used to define a sample of stakeholders to interview. These included 12 senior executives (3 of them also representatives of the Governing Council[1] and 2 of them also members of the Social Council[2] for different periods of time), 6 rank and file worker owners, including 3 leading representatives of the Social Council for the last 25 years of the firm, a senior union official who defended non-owner employees during the bankruptcy process, 3 senior managers in Mondragon central offices, and 4 senior Basque Government officials responsible for industrial policy. Most of the former managers and rank and file workers who were interviewed had been working for Fagor for at least two decades and in many cases had quite conflicting and contending perspectives. External stakeholders who were interviewed had also been closely associated with Fagor and Mondragon Corporation for long periods of time.

We adopted a structured script that set out the course of the interviews in general terms, but was adapted to the former position of the interviewees in Fagor and to the role of other interviewed stakeholders. The script was further modified as the fieldwork progressed, as recommended in the literature (e.g. Denzin and Lincoln, 2008).

The interviews were conducted between October 2015 and September 2017, after the collapse of the company. This phase of data collection was stopped at the point of saturation (Eisenhardt, 1989; Francis et al., 2010); for example, the field-work was confined to the mentioned number of interviews because, although the number could have been increased, it became clear as the field work was being carried out that increasingly fewer ideas were being gathered, thus giving rise to theoretical saturation phenomena. Interviews focused on the choices and events that, in the view of the interviewees, were critical to explain the demise of the company. In order to gain the participants' trust and avoid organizational silence, social desirability and other similar bias such as the potential tendency of the interviewees to approach the interviews cathartically (Heras-Saizarbitoria, 2014), the solely scholarly aim of the research, the diversity of the background of the respondents, the respondents' anonymity and the confidentiality of all information obtained were guaranteed. All interviews were recorded and professionally transcribed.

A grounded theory method of interpretation was used for data analysis, an inductive analytical method with great potential for this type of research (Glaser and Strauss 2017). According to this approach, the interpretation of data is based on a categorization emerging from the study. The iterative process of categorization and interpretation of the data was conducted by the researchers. This process applied to the outcome of the semi-structured interviews and to the other main sources of information of the fieldwork had a principal outcome: the identification of illustrative passages or extracts for the main themes (i.e. drivers for the failure of Fagor). More specifically, an inductive approach for the qualitative content analysis of the gathered data was used. Data (text) was extracted from interview transcripts, internal and public documents and field notes and the preliminary relevant codes were identified. In subsequent steps similar codes were grouped and placed

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[1] The Governing Council in Fagor Electrodomésticos was made up of 12 Coop members elected by the General Assembly for 4 years. The Governing Council appoints and oversees managers, prepares annual plans, determines job classifications, presents annual reports, and accounts to the General Assembly and proposes the distribution of profits for the approval of the General Assembly (Kasmir, 1996, 36).

[2] The Social Council is the closest thing the cooperative has to a works councilor union delegates in investor-owned firms. The Social Council brings grievances to management on behalf of workers (grievances related to issues as health and safety, job ratings, work pace, job assignments, recruitment and promotion criteria; pay policy, working calendars, relocations or pay policy).Besides, the Social Council communicates managerial decisions and conveys information downward (Kasmir, 1996, 37).

into categories. These draft categories were also grouped and, as a result, four themes were identified across the mentioned categories.

Regarding the more relevant external (public) data, this paper draws extensively on secondary sources such as annual reports, official reports and the Bankruptcy Report, written by the insolvency administrator. With regard to the internal data, many internal reports on HRM outcomes for extended periods of time were analyzed. More specifically, the results of the three last satisfaction surveys conducted by Fagor Electrodomésticos in 2003, 2005 and 2008 and longitudinal monthly data on absenteeism for the different business units from 1995 to 2013 were analyzed. We also had access to several internal in depth analyses of absence management conducted by Fagor's HRM department between 2005 and 2010. Those documents analysed the causes of sick leave rates for different workforce segments and proposed measures to the Governing Council and to the General Assembly[3] to reduce voluntary absenteeism. It was not possible to conduct regressions because the microdata of those surveys were not available. The firm no longer exists, and much data has been destroyed or mislaid. The satisfaction surveys and the analyses of absenteeism in Fagor were not collected for academic research purposes, and results are not presented in a way that allows the derivation of further descriptive statistics. Yet some weakness on the data is compensated for, since longitudinal data collected by HR managers in Fagor comes from a large sample of employees that would be almost impossible to achieve if the data set was collected by outside researchers.

The validity of factors was supported by the use of diverse sources of information and the internal validity was guaranteed by the search for common patterns that explain the phenomena. The information gathered from the interviews was triangulated with the quantitative information from the desk research. Having access to knowledgeable informants with long term relationships with the firm, and longitudinal quantitative data, offered the possibility to gain rich insights. For example, in order to analyze the effect of employee ownership on HRM outcomes, key data of satisfaction and absenteeism surveys were presented to the interviewees, who were asked to tell their version of "the story behind the numbers". Since satisfaction and absenteeism surveys showed various results for different segments of the workforce identified in terms of employment status, age, rank, and so on, we interrogated the different stakeholders about their own interpretations of those differences and the ways they made sense of the data. Different points of view were surfaced and tested, by feeding back the accounts of interviewees (unascribed) to others and asking them to comment. Throughout this historical account, interviewees were asked questions about particular decisions and processes in the company, and critical external events, and how these affected the demise of the company. These included perceptions of the company's strengths and weaknesses in HRM policies.

Results

While the present paper focuses on HRM Issues, other important factors affecting Fagor's demise appeared in our interviews: the burst of Spanish property bubble and the

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[3] The General Assembly is the supreme body in the cooperative. Each coop member has one vote in the Assembly, regardless of his/her position in the firm and regardless his/her investment. It votes on the annual business plan, allocates earnings, decides on mergers and acquisitions, votes on the admission of new members and the punitive expulsion of members, elects the Governing Council and monitors its performance (Kasmir, 1996,36).

consequent drop in sales of household appliances, marketing and product positioning problems, the increased bargaining power of big retailers (e.g. Media Markt, Saturn), the growing market share of new entrants (Samsung and LG in the mid-range products and Beko and Haier in the low-range products), the increased competitive rivalry, the poor implementation of the internationalization strategy, the size problem (too small compared to main competitors and too big to be efficiently run as a cooperative), failures in the cooperative governing bodies and, above all, poor decisions about major investments. Fagor had made very large investments between the mid-1990s and 2007, both in its Basque factories and buying the French competitor Brandt. While direct competitors and new entrants were concentrating their production of mid and low-range products in low labour cost countries, Fagor concentrated 70% of its production in high labour cost regions. Investments in Spain and France were financed by borrowing, generating huge financial problems when demand began to fall.

Focusing on HR issues, the inductive qualitative analysis of the interviews and the analyzed documentation are organized around the following four themes: 1) Clashes between employee ownership in Fagor and recruitment and selection policy: perverse nepotism; 2) Clashes between employee ownership in Fagor and absence management; 3) Clashes between a reverse dominance hierarchy and several HRM policies (individual performance evaluations, pay for performance, absence management, recruitment…); and 4) Clashes between employee ownership and Taylorist production systems -i.e. systems based on simplifying work to reduce the required skills and allow faster achievement of proficiency (Bailey et.al., 2001). Key findings related to these four themes were summarized and, when possible, some figures and descriptive quantitative figures were included. Similarly, representative passages for these main themes were selected and translated into English and are included below.

Clashes between employee ownership in Fagor and recruitment and selection policy: perverse nepotism

According to almost all our informants, rather than attracting better workers, lower-quality workers were more likely to join Fagor Electodomésticos in basic blue collar positions due to what Padgett et al. (2015) describe as “bad nepotism”. Other Mondragon cooperatives have applied nepotistic recruitment policies, combining them appropriately with criteria of meritocracy and implementing guidelines and boundaries in the sense proposed by Bellow (2003) and Laker and Williams (2003). Fagor, on the other hand, gave preference to the offspring of members without requiring most of them to meet any minimum educational standards. Interviewees classed this policy of nepotistic recruitment and selection as “unsuitable”, “a problem”; “a fatal error”, “a perverse policy”, “the absolute evil”, “a terrible social mistake”, “a disaster”, “a cancer”, and so on. Only two of the twenty-five interviewees (one member of the Social Council and a trade union representative) played down the gravity of nepotistic selection policies.

Specific details of this policy are given below. The last regulation on selection of new members at the Fagor Group, comprising eight working cooperatives, was published on 23 May 2002. Under these rules, up to 30 points out of a possible 100 were awarded for having a parent who was a member. This compares to just 10 points for having more than 5 years’ work experience and 16 points extra for having higher-level secondary education, as opposed to having no educational qualifications whatsoever.

This recruitment policy led to adverse selection in terms of skills and attitudes. Most interviewees also said that many members used this nepotistic policy to favour their offspring with poorer training, skills and attitudes:

> ***"If you have a child who's not very bright, you send them to the cooperative. Why? Obviously, a bright child will find work elsewhere (...). That happened a lot in Mondragon.*** (...) ***If you're required to take in the children of members with no qualifications, then the worst tends to happen. Members' children make less effort too. They know they're going to be made members at the end of the trial period. They're not motivated and they don't value hard work."*** (Fagor manager)

Some interviewees justified the low level of qualifications required of new members in a Taylorist production model like that at Fagor Electrodomésticos: "***You don't need to be Einstein to put screws into a washing machine. There were plenty of people at Fagor Electrodomésticos who had no training because it wasn't needed***" (Fagor manager). For this reason, most interviewees felt that the lack of engagement and commitment seen among many members' children joining the company was more important than their lack of educational qualification.

Another possible reason for nepotistic recruitment policies is the search of homogeneity. Cooperatives search for a homogeneous workforce and select a membership that shares basic values and a worldview (Rothschild and Whitt, 1989). Besides value homogeneity, a key alleged reason for nepotistic recruitment policies in worker cooperatives is the so-called "horizon problem" (Borgen, 2004; Jensen and Meckling, 1979). In the absence of freely tradable owner shares, worker owners in a cooperative are not properly motivated to invest, unless they expect to remain in the company for the entire payback term. Fagor and other Mondragon cooperatives have partially overcome this problem with a mixture of individual accounts and collective reserves. At the time of retirement, individual accounts are paid to individual members. Another way of overcoming the horizon problem in Fagor and other Mondragon cooperatives is by linking cooperatives to a limited geographical environment, "a fact that fosters the informal inheritance of the job" (Arruñada, 1990, 143) and giving preference to descendants of members of the cooperative when recruiting.

According to the interviewees, managers at Fagor and the HR department tried repeatedly to increase the requirements for membership. Employee ownership conditioned the adoption of boundaries and all change proposals failed because of the opposition of worker owners in the Social Council and the General Assembly:

> ***"At one General Assembly, we discussed a proposal from the personnel staff that all new members, including direct labour, regardless of the score for being members' children, should sit an aptitude test and have an interview to screen them in some way. But the General Assembly voted against the move. That was what Fagor was like from a social point of view"*** (Fagor manager)

Now, with the benefit of hindsight and given the gravity of the outcome, even some of those who defended nepotistic recruitment policies on the Social Council and argued against any change recognise that the policy was a serious social and business error:

> ***"The entry of member's children was a terrible social error (...) We've created a serious problem of 'in-breeding' in the cooperatives*** (...); ***we scored them based on the parent's seniority and*** demanded very little in terms of educational qualifications.

So, all kinds of people joined the company, including people who really didn't perform, people who didn't even pass the trial period. (...)***. It was a social error, and it was mistake on our (the Social Council's) part to have defended that sort of thing*** [emphatically]***."*** (Member of Fagor's Social Council)

Only one out of the 25 interviewees – the former member of "Ahots Kooperatibista", a very influential quasi-union in the last years of Fagor – still defended nepotistic hiring policies and denied any reverse selection. In fact in March 2013, few months before Fagor went bankrupt, when managers tried to change nepotistic hiring policies for the last time, the journal of "Ahots Kooperativista" asked coop workers to vote against this change in the General Assembly:

"(Management) wants to eliminate the right to transfer membership to the sons and daughters when a partner retires. Our position is contrary to this change, we consider that keeping this feature is of (partner's) interest. It is fair to compensate the efforts of cooperative members in different areas such as wage reductions. That's why we will vote NO." (Ahots Kooperatibista, 2013, 13)

Even if managers blame the Social Council and rank and file cooperative members in the General Assembly for maintaining a "bad nepotism" recruitment policy, it could also be argued that it was management's fault for not taking the lead and convincing cooperative members of the need for a change. In many other Mondragon cooperatives managers in the early 1990s had the leadership and pedagogical skills to convince opposing cooperative members of the need to establish minimum training requirements (vocational training degrees) for all new cooperative members and instituting filters in the recruitment process to avoid recruiting new members with poor attitudes.

According to some of the interviewees, another reason for this lax and misguided policy on recruiting member's children was the limitation the cooperative faced in financing expansion and the need to ensure that members did not withdraw their capital from Fagor after they retired. Under the rules for new Fagor Group members, children of retired members enjoyed the same status as children of active members, provided the parents retained their economic stake in the company (Fagor, 2002; Norma de selección de ingresos 23/5/2002, p.10).

Clashes between employee ownership and the recruitment and selection policy can be specially hard when the worker cooperative is recruiting large numbers of new members. Whyte and Whyte (1988) and Kasmir (1996) report that many previous worker-manager conflicts in Fagor took place after periods when the membership had expanded rapidly and there had been insufficient time to induct and train members and introduce them to the meaning of cooperativism. According to our informants, the growth of Fagor and the need to replace many retiring cooperative members forced the company to hire close to 1,000 new members between 1997 and 2003. Some years, up to 300 new members were hired in a single recruitment round, making it impossible to transmit the corporate culture to new entrants:

"It was like a tsunami. In just one year, it's difficult to assimilate 300 new members aged between 18 and 20, people who've dropped out of school because what they want is money and a ***9-to-5 job. You put them all together, with their own culture and their vision (...). And there's nobody by their side to instil our previous culture of***

> *effort and commitment to them. (...). There's no one left, they've all gone" (*Fagor manager)

As in previous rapid expansions of Fagor reported by Rothchild and Whitt (1986), this mass influx of 1,000 new members seems to have eroded the cultural values of previous generations, resulting in a cultural shift in which the balance between the cooperative members' rights and obligations was lost:

> *"There was a very clear change in culture from the mid-90s on. Many of members' children came in with low educational qualifications and they viewed being a cooperative member as being something like a civil servant. 'I've got job security, no one's ever going to fire me. I can say whatever I feel like. I have plenty of rights but I don't think I have any obligations, or at least not many'. That has been the prevailing culture in recent years, especially among younger people."* (Fagor manager)

Besides criticizing nepotism in hiring policies from a Human Resource Management point of view, many interviewees also highlighted that nepotism undermine basic cooperative principles. The Open Membership principle of Mondragon underlines that 'the Mondragon Cooperative Experience is open to all men and women who accept these Basic Principles without any type of discrimination' (Mondragon, 2018b). And in the philosophical and ethical context in which the principle of Open Membership is embedded, certain practices of unbounded nepotism were seen as a form of unfair positive discrimination incompatible with the basic principles and values of Mondragon. Similarly, these practices of unrestrained nepotism also clash with the principle of Social Transformation that aims 'to ensure fair social transformation' and 'the construction of a freer, fairer and more caring Basque society' (Mondragon, 2018b).

With regards to the recruitment and selection policy of managers, as in other Mondragon cooperatives, recruitment for skilled technicians and university graduates was enhanced in Fagor by the preferential recruitment of candidates coming from corporate training centers such as Mondragon University (Basterretxea and Albizu, 2011). Those corporate training centers produce candidates who are more familiar with cooperative culture and have a more favorable attitude toward joining a cooperative enterprise. Also, the recruitment and selection processes for technical and management positions took subjective indicators into account to ascertain if candidates shared basic cooperative values. Small differences in salaries between workers and managers, difficulty adapting to cooperative values and the continuous and critical internal control by cooperative worker owners in the Governing Council and General Assembly, made it very difficult to recruit managers from Investor Owner Firms. Those limitations made Fagor and other Mondragon cooperatives consider technicians and managers as scarce and valuable strategic human capital, providing these members with extensive training (both technical and cooperative) and internal promotion opportunities.

Clashes between employee ownership in Fagor and absence management

According to the interviewees, the induction of many new young cooperative members with little training and poor attitudes towards work and cooperative values was the main reason for a worsening in the HRM outcomes, such as absenteeism, between the mid-1990s and the demise of the company in 2013.

While the first researchers of the 'Mondragon Experience' reported that absenteeism rates of cooperative members were about half those in comparable local firms (Bradley and Gelb, 1981; Thomas and Logan, 1982), absenteeism rates of cooperative working members in Fagor were a constant cause for concern for HR managers in its final two decades.

Absenteeism rates had been below 4% until 1995, but doubled in a decade as shown in Figure 1.

(Insert Figure 1 about here)

The long term increase in sick leave rates over the 1995-2013 period did not have obvious medical reasons. The company had invested millions in new factories, production lines and processes that improved ergonomics and safety in the workplace, thus reducing the risk of accidents, injuries and sickness due to the work conditions. In addition, the average age of cooperative members went down in this period, from 45.5 in 1999 to 43 in 2006 (Fagor 2006), something that theoretically should have contributed to lower absenteeism rates (e.g. Biørn et al., 2013).

We could only gather comparative data of absenteeism rates for different ownership status in the parent company for 2010 (an absenteeism rate of 3.37% for non owners compared with 8.8% for working owners) and for 2013 (1.02% and 6.28% respectively). Former managers in the HR department confirmed that absenteeism rates were higher for cooperative members than for non members in the long term and that deterioration in commitment began as soon as the candidates were converted into cooperative owners. According to the interviewees, a greater sense of job security underlies those results, as in the researches of Blasi et al. (2008) and Basterretxea and Storey (2018):

> *"The moment they became members, their sense of commitment just slipped away. (...), Being a member was almost like being in the public service. Absenteeism sky-rocketed, especially on Mondays. I think it was a lack of commitment. And I think Human Resources should have come down harder on them."* (Fagor manager)

As Figure 2 shows, coop working members of Fagor used to take sick absences more often than the average working members in more than 100 Mondragon cooperatives until 2007. During some years, sick absence processes per 100 employees quadrupled the number considered to be normal by the HR department of Fagor (33 sick absence processes/100 employees /year[4]).

(Insert Figure 2 about here)

Internal analyses of absenteeism in Fagor show that when cooperative members get sick, they stay at home longer than the average employee in Spanish firms for several categories of sicknesses (see Figure 3), which is interpreted as a sign of low commitment. Longer than average sick leave periods have also been found among coop members of Mondragon's biggest cooperative, the retailer Eroski (Basterretxea and Storey, 2018).

4

(Insert Figure 3 about here)

Absenteeism rates differed from some business units to others, with some reaching two digit sick leave rates in many years. For example, the unit producing dishwashers had a 13.81% absence for sickness in 2010 and the unit producing washing machines 12.51%. The very same year, absenteeism in Fagor on average was 8,11%. Managers argued that different cultures where developed in different business units. In smaller business units a culture of mutual control made it easier to fight against free riding and voluntary absenteeism in the sense proposed by Kruse et al (2004). Conversely, in large business units where there was massive recruitment of new members in the late 1990s and early 2000s, a more complacent corporate culture made shirking easier.

Attitudinal responses measured in different satisfaction surveys conducted by Fagor are consistent with the behavioral responses. We had access to the results of the three last satisfaction surveys conducted in 2003 (based on the responses of 2,910 employees out of 4,124), 2005 (2,417 out of 4,148), and 2008 (1,859 out of 2,918). Figure 4 shows sick leave and satisfaction rates of different business units in 2005. The business units with higher sick leave rates are the ones with lower satisfaction rates (Pearson correlation -0.899, significant at the 0.01 level (bilateral)).

(Insert Figure 4 about here)

Internal analyses on the causes of absenteeism conducted by the HR managers of Fagor over the years, and also the opinions gathered in our interviews, consider that absenteeism rates reflected a lack of responsible engagement and involvement with the cooperative project of many members, especially the younger blue collar working members:

> ***"Absenteeism among young people was two or three points higher than among older people who theoretically should have*** more health issues. ***(...) Absenteeism was concentrated to a great extent in direct labour and especially among the young. We concluded that there was a lower degree of engagement."*** (Fagor manager)

In 2005, the company conducted an analysis of absenteeism. It showed that 45% of all sick leave processes were being taken by the 18- to 35-year olds, who represented roughly 30% of the members. They accounted for 47.69% of all short-term sick-leave (1 to 3 days), where it was difficult for the company's medical services to check the validity of the claims. It can be deduced that this included most of the voluntary absenteeism. The report said that "***our organization is sick***" and estimated the cost of absenteeism at Fagor at €9,585,958 for 2005 alone — €2,396,489 in direct costs and €7,189,469 in indirect costs (training substitutes, productivity losses, material losses, hours lost due to reorganization of selection processes, reorganization of the line and reduced quality). In March 2007, at an Extraordinary General Assembly, the HR department warned of an "***alarming rise in absenteeism which could create economic and social difficulties for the firm and threaten the whole Fagor Electrodomésticos business project."*** They called for ***"this major problem to be solved"***.

The internal analysis ***"Absentismo 2010: Estado de Situación y Planes de Acción"*** reported even higher rates than in 2005, showing that high absenteeism had become chronic. The increase in the absenteeism rate of working owners in 2009 and 2010 took place at a time when cooperative members took many austerity measures to face the crisis, including reducing their salaries and being relocated to other companies. Those measures created many social tensions and disputes. As in the case of Mondragon's retailer coop Eroski

(Basterretxea and Storey 2018), interviewees considered that increased absenteeism rates in 2009 and 2010 can be partially interpreted as a "silent response" of some cooperative owners to austerity measures. Related to this issue of absenteesm, it has to be underlined that the satisfaction of younger cooperative members seems to be lower than that of older Members. This could be interpreted as further evidence of the failure in the nepotistic recruitment policy and also a flaw in the training and transmission of cooperative corporate culture to young millennials.

Clashes between a reverse dominance hierarchy and several HRM policies (individual performance evaluations, pay for performance, absence management, recruitment...)

For more than five decades Fagor was able to overcome the darkest prognostications of the cooperative degeneration thesis. Not only was the company profitable in the long term, but it maintained a large proportion of members in its workforce. As Table 1 shows, before the acquisition of the French firm Brandt in 2005, more than 60% of the workforce were still cooperative members. Then, a rapid cooperative degeneration process took place and only 30% of the workforce were cooperative members in Fagor's last years. A similar degeneration process has taken place in the Mondragon cooperative group as a whole, where the percentage of cooperative members reduced sharply from 86% in 1991 to 29.5% in 2007 (Storey et al. 2014).

The degeneration process was not considered to be a factor that caused Fagor's demise. Furthermore, seeing the failure of Fagor with hindsight, twenty four out of the twenty five interviewees consider that the only thing that could (perhaps) have saved Fagor commercially was a much more rapid and drastic cooperative degeneration. Instead of investing heavily in its Spanish factories in the late 1990s and early 2000s, the company should have followed the delocalization path of other European competitors, progressively closing its less efficient factories in Spain and substituting expensive worker partners with cheaper hired wage-labourers in its Polish factory or in other cheap labour countries. Such a move, all interviewees agree, would have been impossible given the cooperative nature of Fagor and the impossibility of working owners voting in favour of firing themselves to hire cheaper wage-labourers. Instead of 'goal degeneration', most interviewees highlight that Fagor prioritized for too long the goal of maintaining cooperative jobs in the parent company, even if this goal was against profitability.

According to our interviewees, the threatened "organizational degeneration" didn't take place. In fact, instead of power and control being increasingly concentrated in a few oligarchic hands, interviewees described the existence of a reverse dominance hierarchy, a kind of hierarchy in which "followers dominate their leaders rather than vice versa" (Boehm, 1993, 228). Our case resembles the case study of a small French worker cooperative by Jaumier (2017), who found a "presence of largely powerless chiefs" and a formal "managerial structure that does not translate into the exertion of much power and authority by chiefs over subordinated workers" (Jaumier, 2017, 221).

As reported by our interviewees, relationships between staff and management deteriorated to a great extent into an us-and-them acrimony, making it difficult to implement hard HRM decisions to turn around the vicious spiral into which the company had fallen.

Many of the HR policies at Fagor seem to have been influenced by historical social conflicts between grass roots worker members and managers at the cooperative. Some of these conflicts persisted in the firm's collective memory, conditioning HR policies for decades. While other smaller cooperatives have reduced shirking and complacent attitudes of some members, adopting performance evaluation and salary systems that penalize poor performers and shirking members, those kind of pay sanctions were not implemented at Fagor. When asked why, many of the interviewees referred to past social conflicts, such as the strike of 1974. On that occasion, the management at Fagor tried to introduce job assessment systems. These would have allowed managers to make a subjective appraisal of the members working under them, evaluating certain qualitative variables such as work quality, responsibility, attitude toward others and cooperation. The strike of cooperative workers was over the system of evaluation and strikers insisted on the retention of egalitarian pay and abandoning supervisors' discretionary role in rating individual workers. In subsequent decades, this would lead to a culture of remuneration based on egalitarianism, and little connection between pay and performance. Similar opposition of worker owners to pay for performance systems have been found in other big Mondragon cooperatives, such as Eroski (Basterretxea and Storey, 2018).

Individual pay for performance and other measures that could increase wage differentials inside the cooperative or between cooperatives were perceived by many rank and file coop workers as destroying solidarity and cooperative values. While other Mondragon cooperatives were reducing their salaries to help Fagor, the majority of Fagor coop members voted against an additional wage cut (foregoing their wages for December 2012 and investing them in the company). Interviewed managers felt embarrassed because of that decision. The Social Council, on the contrary, criticized the wage cut proposal arguing that it was inconsistent with the cooperative model, it went against the wage solidarity principle and tried to respond to problems "through the exploitation of people and their income" (Ortega & Uriarte, 2015, 10). A few months later, in March of 2013, Fagor Group asked coop owners to vote in favour of sharper wage reductions in those cooperatives requesting economic help from others and, again, it found strong opposition of many coop workers and their representatives in the name of the wage solidarity principle and cooperative values.

> ***"There is a will to give an end to wage solidarity in the Fagor Group in such a way that the cooperative that asks for help from the group, depending on the amount of money it asks, has to reduce its wages up to 4%. Wage solidarity was a great social and precious cooperative achievement... It seems to us that it's not the moment for making concessions, either to consumerism or to capitalist competitiveness. Our vote is NO."*** (Ahots Kooperativista, 2013, 13)

Different social conflicts at the firm also ended with the defeat of proposals from management and the Governing Council at various General Assemblies. On several occasions, this resulted in mass resignations from the Governing Council or resignation or dismissal of the CEO and other senior executives. In May 1992 the Governing Council resigned ***en masse***, led by chairman Javier Salaberria, when it failed to push through a proposal to modify executive pay (from a pay differential ratio of 1:3 to 1:6) at the General Assembly. Some interviewees also alluded to this resignation and the conflict that arose over executive remuneration between worker members and executive members as one of factors that conditioned the company's wage policies over subsequent decades. In 2006, CEO Pablo Mongelos proposed cutting salaries and performing extraordinary solidarity (unpaid) hours to tackle the crisis. His proposals were defeated at the General Assembly. After pressure from the Social Council, Mongelos was dismissed and the entire Governing Council and some members of senior management subsequently resigned. Most of the interviewees identified this dismissal of executives proposing tough and unpopular HR policies as a major turning point which helps explain the subsequent failure of Fagor. Adoption and implementation of later cutbacks was hindered and delayed by the power of the Social Council and a fear among management that the Social Council and the General Assembly might reject their proposals and that they might eventually be dismissed like Mongelos. Measures that some interviewees believe might have avoided the complete collapse of the company - such as closure and transfer of highly loss-making units to low-cost countries - were not even raised, as executives were convinced they would be rejected by the General Assembly.

When middle managers saw that the top managers' priority was social peacekeeping and that they were afraid of the Social Council and General Assembly, the managerial capability of middle-management and their capacity for influence amongst their teams was also reduced. Faced with problems of indiscipline, suspicion of voluntary absenteeism, low performance of some members or decisions to bring in new members, middle management did not feel they had the support of their superiors or of the HR Department. As in the case of another fully owned organization from Mondragon, Eroski (Basterretxea and Storey, 2018), this prompted many supervisors to shirk their monitoring tasks, adopting a ***laissez-faire*** leadership style in order to avoid conflicts with shirking members or even with descendants of members who aspired to become members, despite their low skills and poor attitudes.

> ***"As a manager, if you issued an unfavourable report after a candidate member's trial period and the Social Council defended the candidature, your judgement would be called into question. You would be called into question and crucified,*** [emphatically] ***crucified***. ***(...) Many managers, the majority, backed down.***
>
> ***Three years before the firm closed, all middle-managers attended a course. The instructor told us; "The managers at Fagor are neither authoritarian nor participative; you are relinquishers. You relinquish your function, but you don't relinquish your salaries. That's the sort of managers you are". That's what he said. And he was spot on! That relinquishing style of control extended to all the executives (...). But like it or not, we had no option if we wanted to survive."*** (Fagor manager)

Some interviewees emphasized that the reverse dominance hierarchy was reinforced by social pressure exerted outside the factory against some managers and members of the Governing Council in the streets of Mondragon. Some of those incidents of social pressure even attracted the attention of the local media, as when the vice-president of Fagor Electrodomésticos and the president of the Social Council announced to the local media that a member of the governing council, this member and his family had suffered insulting and threatening graffiti in the streets of their hometown for two months (Diario Vasco, 2006). The reason for those threatening graffiti was that he and his colleagues in the governing council had decided not to pay the first three days of sick absence to working members with more than two sick absences per year, and they had made this decision without consulting all the members in the General Assembly.

The reverse dominance hierarchy made sanctioning shirking members extremely difficult. As an example, economic penalties and sanctions imposed on members taking too many sick leaves slightly reduced sick leave rates between 2006 and 2008, but absenteeism went up again when sanctions of absent members were reduced or refunded because of the pressure from the Social Council.

While most interviewed managers identified the reverse dominance hierarchy as a factor that restricted their action and limited their choice when it came to applying certain HRM practices, the point of view of some blue collar workers was different:

> ***"What is the problem? Is the social part too strong? If so, what is wrong? Would it be necessary to "capitalize" the cooperatives? (rhetorical question), I mean, follow the free will of managers, like in capitalistic firms? Do we have to do that? Or do we have to renew the participation systems? So, of course, the conclusion (of managers) is: the social part of the cooperatives, that is the majority, has to have less influence, and management, the minority, more influence, increasing arbitrary norms and resembling capitalistic firms."*** (Spokesman of the quasi-union Ahots Kooperatibista)

Clashes between employee ownership and Taylorist production systems

Since the early 1970s the executives at Fagor were concerned with the internal contradiction between the democratic cooperative system of government and the rigidity of the Taylorist profiles in the way labour relations were handled (Molina, 2006). They decided to promote new, more effective, ways of organising labour in some divisions that would be in harmony with cooperative values. Nevertheless, according to some of the interviewees, the best way to operate many production units in the white goods industry is still on the Taylorist system. Taylorist production systems are considered to be incompatible with the participation and autonomy of cooperative workers (Kurtulus and Kruse, 2017) something that was stressed by some interviewees.

> ***"If someone is working eight hours a day on a production line... in structural terms, the work itself is a very important limiting factor. If you work on a production line, then you're living in an environment of passive labour. You're told what to do... You don't have the capacity to change things. You have a lower level of commitment and satisfaction. (...) If your job, your working environment, doesn't match what you're being sold (autonomy, participation, etc.), it doesn't work..." (Mondragon senior manager)***

Those opinions are in line with previous research conducted in Fagor in the 1990s by Kasmir, who found that employee owners working in the assembly line felt they were treated as "chickens in a coop" (Kasmir, 1996, 187), exploited "just like any worker in any firm" (Kasmir, 1999, 386).

As well as lack of motivation, some interviewees said that members who feel alienated on Taylorist assembly lines tend to use their vote on cooperative management bodies like alienated workers rather than as worker-employers:

> ***"I think it's counterproductive to have members on the assembly line performing a repetitive job eight hours a day. In those circumstances, however much ownership***

they may have, the reality of their day-to-day existence is a "nightmare". (...) To add to it, those people have a vote, and they're the majority... So of course, that majority behaves as if they were in an investor-owned firm (...), but they have a vote. (...) In certain companies, cooperativising certain jobs is not a good idea, because it hinders competitiveness. Fagor Electrodomésticos was one of those cases." (Mondragon senior manager)

Employee involvement and participation in day-to-day decisions can be limited when working on an assembly line; training is unnecessary to conduct repetitive and simple tasks and the path of the chain exerts an automatic supervision and control over the employee. In fact, in the 2003, 2005 and 2008 satisfaction surveys, some of the least valued items are "Participation in the work area", "Professional development in the job" and "Training". Evaluations of those items are especially weak among cooperative workers of lower professional rank and training level. Raised and unfulfilled participation expectations among rank and file employee owners is, therefore, interpreted as a cause of dissatisfaction, in line with previous research (Arando et al. 2015; Basterretxea and Storey, 2018; Ben-Ner and Jones, 1995; Klein and Hall, 1988; Kruse and Blasi, 1995; McCarthy et al. 2010).

Some production units, such as "Cooking", organized workplace production systems and decision-making in ways to get more employee input and involvement (e.g. with a basis of a participative total quality management approach). After the mid-1990s, *Cooking* changed the layout of the factory, adopting u-shaped production cells that required a growing versatility of workers. Accordingly, all satisfaction surveys we had access to, show higher satisfaction of workers in Cooking than in Taylorist production units, such as Frío.

Other units of Fagor failed to conduct similar organizational changes successfully for different reasons. In some cases, as in Fagor Clima (the unit producing air conditioning equipment), managers broke down the assembly line into several short flexible lines, with new numerical-control machine tools and hired private consultants to conduct an efficiency study and reorganize the factory, but cooperative workers protested and did not collaborate with consultants since they feared that the changes would entail a more stressful work pace (Kasmir, 1996, 56-57). In other cases (according to our interviewees) change failed because of mismanagement and inability to replicate good practices, and in others it was because of the firm belief that the Taylorist model was the best for some production units.

Discussion and Conclusions

The present paper enhances our understanding of the relationships between fully employee-owned organizations (i.e. worker cooperatives), and HRM policies and outcomes in several ways.

Our findings enrich the existing literature, showing how employee ownership in worker cooperatives can clash or be misaligned with different HR policies. HR managers in mainly or fully employee-owned companies can face many limitations that make the implementation of high-performance HRM policies, or even standard HRM policies, very difficult. Our research findings show that a major clash can happen between employee ownership in worker cooperatives and some individual HRM policies, such as recruitment and selection, performance evaluation, performance related pay and absence management.

A key contribution to the literature is the finding of many negative consequences of nepotistic recruitment and selection policies. Those findings add evidence to the literature that stress the negative effects of nepotistic hiring policies in other kind of organizations, mainly family firms (Arasli et al., 2006; Arasli and Tumer, 2008; Ford and McLaughlin, 1986; Laker and Williams, 2003; Miller and Le Breton-Miller, 2015; Neacsu, Gómez-Mejía and Martin, 2017; Sidany and Thornberry, 2013). In the case of Fagor, the wrong people were recruited and selected due to a nepotistic recruitment policy, with the selection of the offspring of members with no training and poor working attitudes. Massive recruitment of close to 1,000 new members, mostly descendants of members with little training and poor working attitudes, between the mid-1990s and 2003, provoked a significant drop in member commitment, according to interviewees. Those opinions were backed by satisfaction surveys and by rising absenteeism rates, most obviously among younger members. As our analysis shows, despite different efforts by the HRM department to change the recruitment policy and establish higher training requirements and more professional screening processes to evaluate the involvement and commitment of candidates to cooperative corporate culture, employee owners opposed those changes repeatedly through the General Assembly and Social Council.

While our study focuses on the case of Fagor Electrodomésticos, some of the clashes between employee ownership and HR policies documented here have also been documented in other large Mondragon cooperatives, such as Eroski (Basterretxea and Storey, 2018). Similarly, some of the forces that fostered nepotism in recruitment policies of this cooperative (free riding problems, financing problems, horizon problems) are common to other worker cooperatives. In fact, the regulation on selection of new members that promoted nepotism in Fagor Electrodomésticos was a regulation shared with seven other Mondragon cooperatives (Copreci, Arrasate, Automation, Ederlan, Electronica, Industrial and Mondragon Assembly). According to the interviewees, these companies did not suffer the inconveniences of nepotism to the same degree as Fagor since their products and production systems required a higher percentage of qualified personnel. Even if offspring of coop members had more chances to enter those companies, they had to have at least a vocational training degree, so adverse selection of candidates with poor attitudes towards study and work was less common. Further research is needed in order to evaluate how nepotistic policies have affected HR outcomes in other Mondragon cooperatives.

Another contribution to the literature on HRM in worker cooperatives is the evidence of strong worker resistance to labour flexibility measures adopted in response to a crisis. Those measures also generate negative HR outcomes. Previous research (Arando and Arenaza, 2018; Basterretxea and Albizu, 2010; Bradley and Gelb, 1987; Hoover, 1992; Landeta et al., 2016; Smith, 2001) only stressed the higher resilience and other positive outcomes of labour flexibility in worker cooperatives

Another contribution to the literature comes from the explanation of why employee owners can oppose certain HRM practices, such as individual performance evaluations, pay-for-performance systems, or plans to increase salary differentials. This opposition had already been found by other researchers (Whyte and Whyte, 1988; Kasmir, 1996;

Basterretxea and Storey, 2018) and this research adds evidence on why this opposition occurs. A key to understanding all the HRM problems in Fagor and the persistent inability of management to solve them may be the impoverished managerial capabilities of managers at all levels, due to a reverse dominance hierarchy.

The model of Culture Fit (Aycan et al., 1999) focuses on how the sociocultural environment affects the internal work culture, which in turn influences human resource management practices (Aycan et al. 1999). Our findings in Fagor suggest that the internal work culture of Fagor was characterized by a reverse dominance hierarchy that limited management choice when it came to applying certain HRM practices. Negative expectations and assumptions of managers about young working members hired through nepotistic policies could also limit the adoption of certain HR practices and organizational innovations. Some broader changes in the sociocultural environment, pointed out by Azkarraga et al. (2012) and Calzada (2013), especially the move toward more individualistic patterns of community and civic life and lowered levels of communitarian social capital, could have had an effect on the internal culture and conditioned HRM practices. As underlined by Azkarraga et al. (2012, 78), "the process of de-ideologization has affected the whole of society and, as members of that society, the cooperative social body as well". Following

Working and managing associations of laborers 'under managers elected and removable by themselves' - as Mill predicted would be the norm if mankind improved - seems to be a really complex issue. In his *Principles* Mill himself referred to a set of 'admirable qualities' by which the pioneering worker owned organizations maintained workers in increasing prosperity: *'Their rules of discipline, instead of being more lax, are stricter than those of ordinary workshops; but being rules self-imposed, for the manifest good of the community, and not for the convenience of an employer regarded as having an opposite interest, they are far more scrupulously obeyed, and the voluntary obedience carries with it a sense of personal worth and dignity'* (Mill, 1987; p. 778). It might be wise to reflect on the present prevalence of another conflict of interests: the opposite interest between the convenience of some employees and the 'manifest good of the community'. This conflict seems hard to manage in worker cooperatives in the modern society in which they are embedded. This is particularly the case in large organizations, where the 'self-imposition' is more easily watered down

Our findings show that a set of HRM policies rooted in the cooperative nature of Fagor exacerbated the problems of the company and made the turnaround significantly more difficult.

Implications for practice

HR departments of worker cooperatives should make an effort to avoid "bad" nepotism policies and implement guidelines and boundaries to the nepotism policies in order to reduce their negative effects. Efforts will have to be made in the communication and creation of a culture that makes nepotism recruitment policies compatible with meritocratic criteria. This recommendation may also be valid for other types of firms that adopt nepotistic recruitment policies.

Many of the former managers and workers of Fagor we have interviewed are actually relocated to other Mondragon cooperatives. This provides them the opportunity to see whether other cooperatives have learnt the lessons of Fagor's failure. When it comes to HRM lessons, most interviewees note that other cooperatives are now much more cautious in their recruitment and selection policies. Educational requirements of potential new members have been raised and subjective evaluations of candidates' work ethic and involvement with cooperative values are now much more important.

Our findings can also be helpful for HR practitioners facing a generational replacement of a large part of their workforce and willing to maintain the organizational culture. Many of the negative HRM outcomes of Fagor were caused because of its size and previous rapid expansion of membership and because of the substitution of large numbers of retiring members by younger members. The massive induction of new young members impeded the maintenance and nurturing of the pre-existing cooperative corporate culture. Some of our informants suggested that other Mondragon cooperatives that actually are very successful, such as Fagor-Ederlan, are also increasing their membership too fast and may face negative HRM outcomes in the future as happened in Fagor. Successful worker cooperatives in other regional settings, or worker cooperatives facing the substitution of a high percentage of their older and retiring members, should also be aware of the risks of rapid and massive recruitment. While many academics conceive the failure to transmit cooperative culture to new entrants as a training policy problem, the managers we interviewed consider this interpretation rather naïve. Formal cooperative training has been provided by Fagor and all Mondragon cooperatives to new entrants for years (Basterretxea and Albizu, 2010), but those programs have limited effects in changing attitudes, values and behaviors. Informal transmission of cooperative corporate culture by members with longer tenure to newcomers is much more important. But such informal transmission is difficult when 1,000 new cooperative workers enter a firm in a few years, as happened in Fagor between 1996 and 2003, and many old members are retiring in the same period. Difficulties were exacerbated in some business units where generational replacement was more extreme. Other worker cooperatives facing similar growth or generational replacement needs, should consider the importance of securing the informal transmission of the organizational culture. Besides hiring new members, relocating older members from some business units to others can be necessary to ensure that all business units have a minimum percentage of long tenured employee owners who can transmit the organizational employee-ownership culture to newcomers informally.

Fagor's case is also an instructive lesson for many investor-owned firms that wish to foster ESO. Those companies operating with Taylorist production systems should recognize the challenge of combining ESO with Taylorist systems and consider how to create an ownership culture, with the possible redesign of work and employee involvement.

For those worker cooperatives that already have such a disjunction between their Taylorist production systems and the participation and autonomy fostered by the cooperative model, some of our informants proposed some good examples of other Mondragon cooperatives, that in the past had conventional Taylorist production systems with low training requirements, and have changed their production system to get a higher congruence with cooperative values and be able to achieve cooperative advantages. Those changes have required more automation of production processes and reducing the workforce dramatically, but the remaining worker owners are highly qualified, with more responsibility and enriched tasks, which fits better with the autonomy and participation that the cooperative model fosters.

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Limitations and avenues for further research

The main limitations of this study are those inherent in the qualitative methodology used and the type of company analyzed. As stated, methodological precautions were considered in the field-work to limit potential biases, such as a the tendency to minimize suggestions of managerial failures by interviewed managers, and the potential inclination to give self-indulgent opinions by member-workers. Yet those and other similar biases (e.g. social desirability bias, organizational silence) could have affected some outcomes.

Fagor was the biggest industrial cooperative of the Mondragon experience, and many results can be useful for other big fully employee-owned companies. Nevertheless, the generalization of these results to other cooperatives and other types of ESO firms should be treated with caution.

As Jaumier (2017) suggests, reverse dominance hierarchies and subsequently weakened leadership of managers may be more widespread among worker cooperatives than suggested by the current state of the literature. Further research is needed to analyze the possible presence of reverse dominance hierarchies in ESO firms where the majority of shares and votes are on the hands of workers. Similarly, the effect of employee ownership on HRM outcomes will also have to be studied in different kinds of employee owned firms operating in other industries and countries.

Acknowledgments

This article is a result of a research funded by the University of the Basque Country (UPV/EHU) (GIU-15/08) and the Basque Autonomous Government (Grupos de investigación del sistema universitario vasco; GIC12/158 - IT763/13). The authors would like to sincerely thank the Editor Prof. Douglas Kruse and the anonymous reviewers for their very relevant contribution to the improvement of the manuscript.

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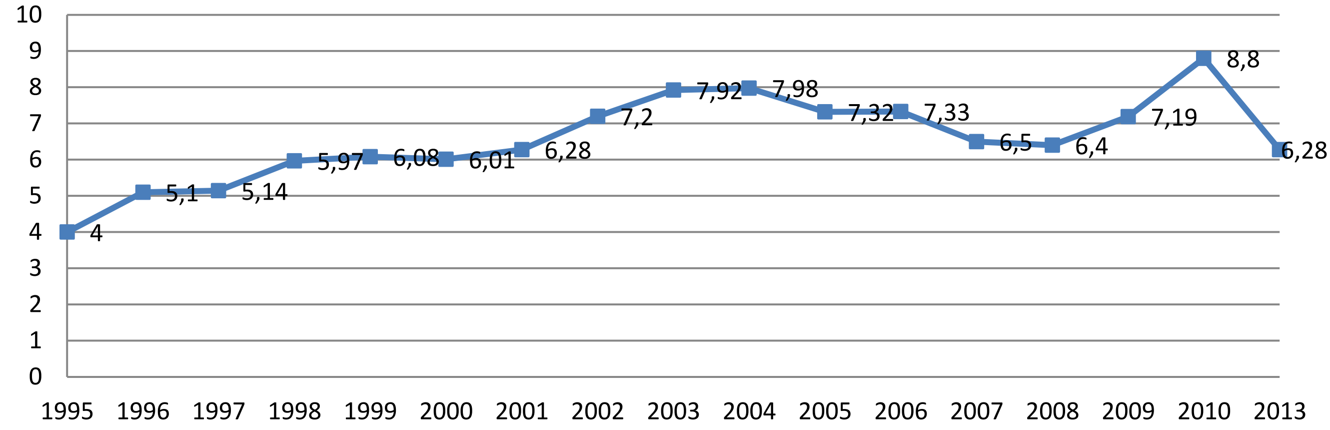
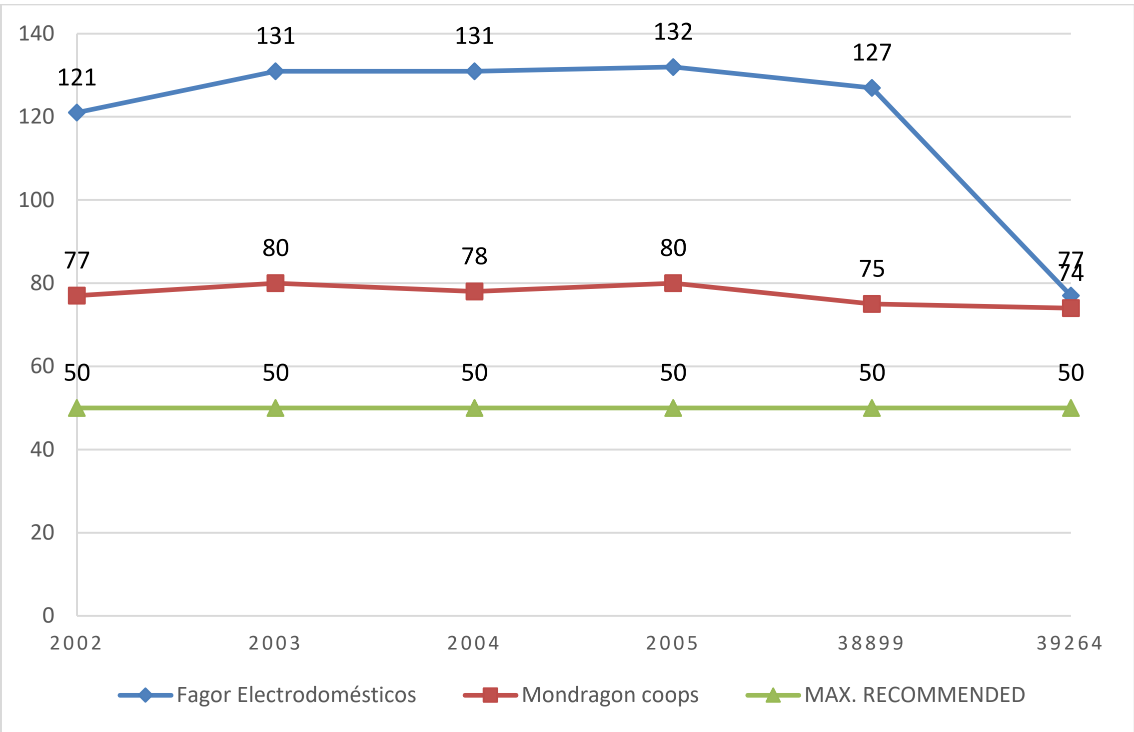
Figure 1: Sick leave rates* of Fagor Electrodomésticos cooperative working members 1995-2013



*Sick leave rates= % of sick and accident leave hours / total working hours. Data for 2011 and 2012 was not available.

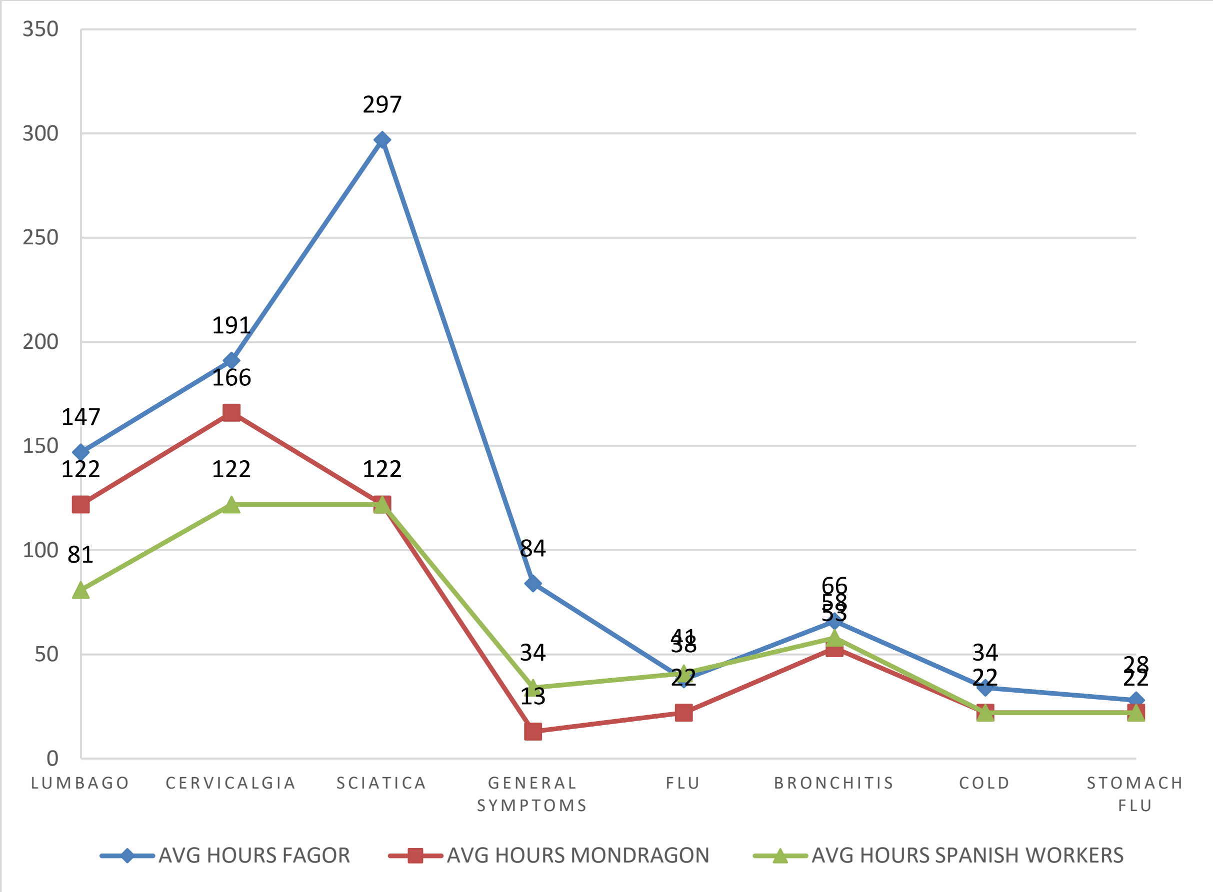
Source: Data gathered from the company.

Figure 2: Sick absence processes per 100 coop working members



Source: Data gathered from the company

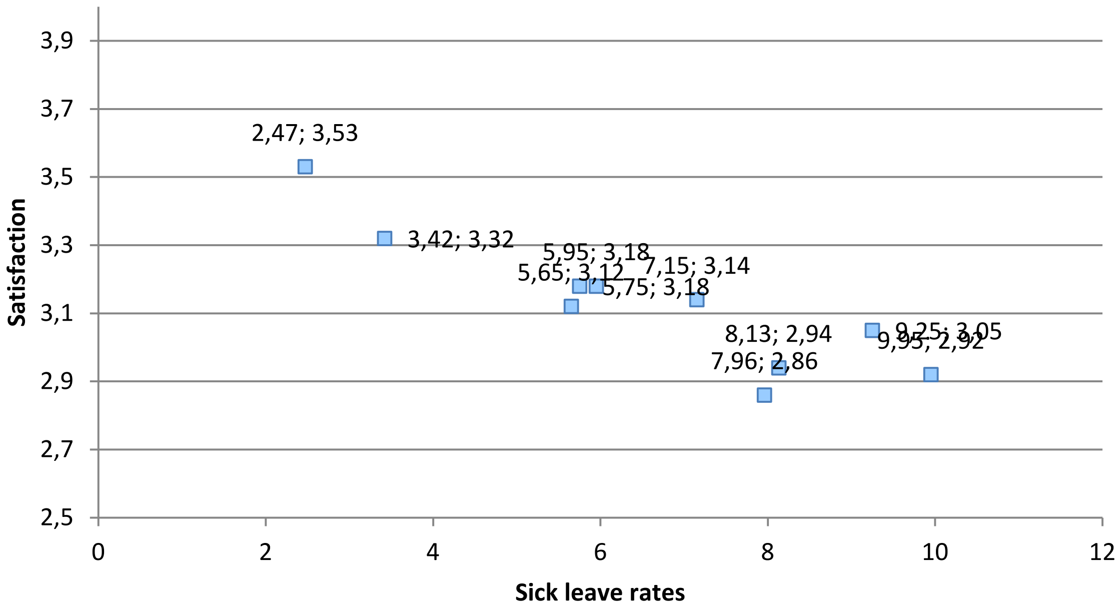
Figure 3: Duration of sick absence processes in Fagor compared to Mondragon cooperatives and Spanish firms in 2005



Source: Data gathered from the company.

Figure 4: Satisfaction and sick leave* rates in different business units of Fagor Electrodomésticos (2005)**

Satisfaction 2005



*Sick leave rates= % of sick and accident leave hours / total working hours.

**Satisfaction: The satisfaction survey included 47 questions evaluated from 1 to 5 and grouped in 11 categories: Working conditions; Economic reward; Professional growth; Organization of work; Information-communication; Participation; Working environment; Management and supervision; Strategies, goals and future of the organization; Identification with the cooperative; and Corporate values. Satisfaction rates of this table are the average of rates in the 11 categories.

Table 1: Evolution of different employment models in Fagor Electrodomésticos (2000–2011).

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Cooperative working	3,067	3,520	3,424	3,393	3,082	2,718	2,474	2,325	2,219	2,067
Total employment	5,917	5,835	10,163	10,543	10,067	9,861	8,405	8,260	6,641	5,673
% of cooperative	51.83%	60.33%	33.69%	32.18%	30.61%	27.56%	29.43%	28.15%	33.41%	36.44%

Source: Authors' analysis based on Annual Reports of Fagor (2003-2012).