

Case Study: LABORAL Kutxa: the governance of a multistakeholder credit cooperative in the Mondragon Cooperative Experience

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1 Introduction

LABORAL Kutxa, also known as *Caja Laboral Popular S. Coop*, is a cooperative bank created in 1959 in the context of the Mondragon Cooperative Experience. One of its most symbolic institutions, it played a crucial role in the foundation and expansion of cooperative enterprises in Mondragon.

Today, *LABORAL Kutxa* is the second biggest financial institution in the Basque Country. It is described as a cooperative bank "guided by values and philosophy that lead us to prioritize the general interest over the individual, to make decisions in a participatory and responsible manner, and to reinvest our profits in society" (*LABORAL Kutxa*, 2023, p. 8).

The business activity of *LABORAL Kutxa* is divided into two main branches: banking and insurance. The banking business offers both lending (mortgage products, consumer and business credit, and currency) and savings products and services (deposits, guarantees, payment methods services, e.g., credit and debit cards, investment funds, pension funds, and EPSVs¹).

LABORAL Kutxa is a multistakeholder credit cooperative where worker-members, cooperatives, collaborators, and customers all engage with the enterprise and share ownership and control.

LABORAL Kutxa is a particular case of the multistakeholder cooperative form. It is a credit cooperative where worker-members, cooperatives, collaborators, and customers all engage with the enterprise and share ownership and control. The diversity of kinds of membership makes this case interesting for exploring the virtues and challenges of multistakeholder governance in cooperative firms.

2 The origins

Caja Laboral Popular S. Coop (hereafter CLP) is a cooperative bank created in 1959 by three worker cooperatives: *Talleres Ulgor*² (1956), *Talleres Arrasate* (1957), *Funcor* (1955), and the consumer cooperative *San José* (1957). These cooperatives, particularly *Talleres Ulgor*, later *Fagor Electrodomésticos*, were the pioneers of the so-called Mondragon Cooperative Experience (hereafter MCE). In their beginnings, these four cooperatives understood that they needed to grow and expand to thrive. Creating new cooperatives became one of their central goals, and new cooperatives required social, financial, and administrative/legal assistance. The

¹ EPSVs or *Entidades de Previsión Social Voluntaria* (voluntary social security entity) are private pension savings entities that help people complement the benefits received from the public social security system after retirement.

² *Talleres Ulgor* became *Fagor Electrodomésticos* in 1980. The consumer cooperative *San José*, together with another six small consumer cooperatives, became *Eroski* in 1969.

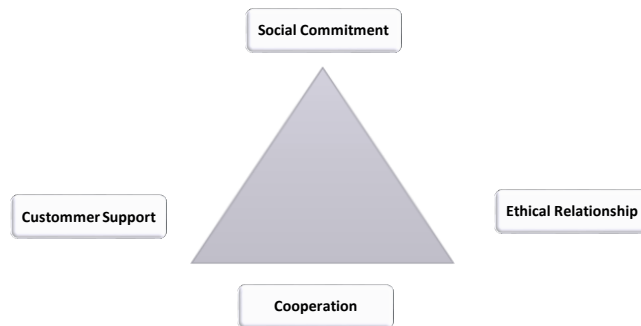
cooperatives created CLP to assist in the expansion of the MCE, providing cooperatives with financial, administrative/legal, and social services.

The successful foundation and expansion of CLP (1965-1982) can only be understood in close relation to the success of the MCE generally. The first office of CLP opened its doors in Mondragon on 1 February 1960. By 1975, CLP already had 64 branches distributed around the Basque territory. By 1982, this number had doubled (132 offices), and the number of worker-members had risen to 1,121. Also, the number of member cooperatives grew dramatically: by 1964, there were 40 cooperatives associated with CLP, and by 1978, there were already 90. Up until 1975, CLP opened new offices only in towns and villages with cooperatives. In other words, branches of CLP were opened in towns and villages where cooperatives needed their services. The relationship also worked the other way around: every cooperative using the services of CLP had to sign the so-called "contract of association" whereby it committed, for example, to comply with cooperative principles and adopt a set of by-laws that fulfilled certain minimum requirements and ensured all Mondragon co-ops were the same in this regard.

Another example of this symbiotic relationship between *Caja Laboral Popular* and the Mondragon Cooperative Experience is the so-called "passbook or passport" policy. At its beginnings, CLP needed funds to invest in the creation of new cooperatives and expansion of existing ones, naturally considered important for consolidating the cooperative model. Therefore, cooperative members and their families were called upon to place their savings in CLP because "either new industries are built up, for which capital is needed (*passbook*), or our children will be forced to emigrate in search of work outside the country (*passport*)" (Caja Laboral Popular, 2009, p. 10). Cooperative members and their families were called upon to place their savings in CLP for the greater good of creating jobs for their children by supporting the expansion of the cooperative model.

Accordingly, the original purpose of CLP underpinned the basic values of its business model (**Figure 1**): cooperation, ethical relations, customer support, and social commitment.

Figure 1: Values pyramid 1960-1975 (Caja Laboral Popular, 2009, p. 40)



Cooperation among cooperatives was the bedrock of CLP's value system, its main reason for being. An ethical relation to banking and a trust-based relationship with customers speak to its founders' intent to engage in the banking sector in a manner consistent with the basic principles of the MCE – a sector that, according to a testimony of that period, the pioneers of the MCE considered “phantasmagorical and a bit mafia-like, due to our complete ignorance about it” (Caja Laboral Popular, 2009, p. 5). In a nutshell, it was a sector that the pioneers of the MCE considered untrustworthy.³

Together, cooperation, ethics, and trust established the pillars of a project committed to the higher aim of social transformation.

Together, cooperation, ethics, and trust established the pillars of a project committed to the higher aim of social transformation. Hence, the original purpose of *Caja Laboral Popular*, namely serving the consolidation and expansion of the Mondragon Cooperative Experience, shaped the foundation, expansion, and fundamental values of the business model of CLP in this initial period. However, this relationship evolved in response to internal and external transformations within the CLP and the MCE.

On the one hand, as it expanded and grew, the Group of cooperatives associated with CLP began to constitute the superstructures that would later become what today is known as the Mondragon Corporation. These superstructures assumed functions and roles until then in the hands of CLP's sections and divisions.

Originally, CLP comprised three sections: the *economic section* provided financial services, the *social department* provided social services, and the *business division* provided

³ Indeed, according to the protagonists of that period, the initiative to create Caja Laboral was of Jose Maria de Arizmendiarrreta, but it was not shared, at least initially, by the pioneers at ULGOR. Apparently, Arizmendiarrreta did not accept the negative reaction of ULGOR directors to the idea of creating a bank and faked the minutes of the first constituent session in order to proceed to the registration of the new cooperative bank (Caja Laboral Popular, 2009, p. 6).

administrative/legal assistance, cooperative development, and industrial coordination services. In 1967, the cooperatives created *Lagun Aro*, an independent cooperative-like mutual organization to provide cooperative members health insurance, pensions, and related benefits. Between 1984 and 1987, the Mondragon Cooperative Congress (hereafter, MCC) set up the Group's basic structure, and the plans included a business division that would take the role of General Services of the MCC and assume the promotion of industrial, agri-food, and information services for its associated cooperatives. The business division, part of the CLP's structure since 1973, remained part of CLP up to 1991. However, as explained by Larraitz Altuna, the internal evolution of the MCC "facilitates the transference of the hegemony of CLP as the nucleus of the group to the Cooperative Group itself" (Altuna, 2008, p. 150).

Further, by the '80s, the share of CLP's loan portfolio of Mondragon cooperatives was reduced dramatically, and the credit cooperative reoriented its business model outside the cooperative ecosystem with great success.

Spain's institutional and administrative landscape was entirely transformed in the '80s. Franco's dictatorship ended in 1975. In 1979, the Basque Autonomous Community was created (Spain consists of 17 political-administrative regions called "Autonomous Communities"), and Spain integrated into the European Economic Community (EEC) in 1986. Positive political developments advanced together with a serious industrial crisis. Between 1974 and 1983, unemployment rose to 25% in the Basque region. In this period, CLP was already consolidated in the Basque banking system, and this position allowed it to play a crucial role in helping cooperatives deal with the consequences of the industrial crisis (i.e., direct investments or lowering interest ratios). José María Ormaetxea, General Manager of CLP at that time, explains this as follows:

In the first decade of the '60s, the bank would not have existed without the contributions and banking business of the associated cooperatives... In the second period of the '70s, the Group needed Caja Laboral to overfinance, transfer part of its economies, forgive credits, and maintain permanently investments up and the creation of jobs. (Ormaetxea, 1998, p. 304)

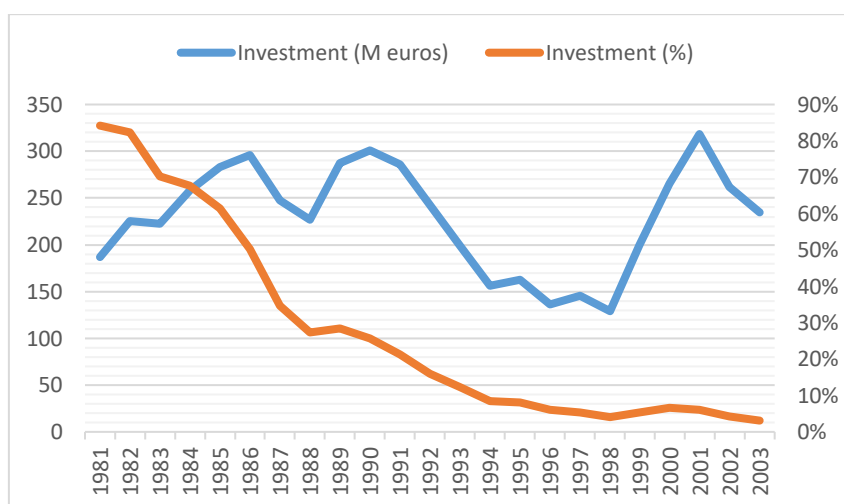
However, the Bank of Spain, in the context of significant concerns about the crisis of the industrial banking system, forced CLP to transform its business model, particularly in aspects that directly affected the relationship between the CLP and MCC.

According to the Bank of Spain, the fact that most of CLP's investment was centered on a group of industrial cooperatives, which were also its associated members and sat on its Governing Council, made for an unacceptably high concentration of risk in one financial entity and even constituted, in its view, a conflict of interest. Ormaetxea observes that this dependence can be

explained by the original purpose of CLP, but only to a certain extent. The Spanish law also limited the capacity of credit cooperatives to operate in the banking business. For example, credit cooperatives were not allowed to engage in operations if the public administration was among the investors. These limitations also explain the dependence of CLP on the cooperatives of the Group insofar as their business opportunities were severely limited outside the cooperative ecosystem.

The situation changed with a sequence of legislative changes beginning with the Regulation of Cooperation (1971), the General Laws of Cooperatives (1974 and 1987), and the first Law of Credit Cooperatives (1989), which, for the first time, "permits, without restrictions,⁴ the opening to any physical or juridical person the granting of risk operations" (Ormaetxea, 1998, p. 294). In 1989, CLP acquired the licenses to operate almost as any other financial entity. They began promoting commercial venues with retail customers to set up a risk diversification plan that lasted several years. The consequence, as shown in **Graph 1**, was a dramatic reduction of the centrality of the cooperative ecosystem in the business activities of CLP: the weight of Mondragon cooperatives in the overall investment of CLP falls from 84.2% in 1981 to 25.6% in 1990, and keeps falling thereafter.

Graph 1: CLPs lending to the Cooperative Group 1981-2003
(Caja Laboral Popular, 2009, p. 87)



Together, the internal evolution of the Mondragon Cooperative Corporation and the transformation of the context in which it operated resulted in the reorientation of CLP's purpose and structure. The link between CLP and MCE remains tight, but CLP could no longer be considered the "cooperative of cooperatives" at the very center of the Mondragon group's

⁴ The legislation opened the door for CLP to operate "almost" as any other financial entity, but not really "without restrictions". Article 4.2 of the law of credit cooperatives, for example, limits to 50% of the total resources of the cooperative the amount of active operations allowed with third parties.

business and governance activities. It is a cooperative operating in the banking business with similar rights and duties towards the Mondragon Group as any other cooperative. Adapting to this transformation provides the background for discussing CLP's current purpose, governance structures, and processes.

3 Current purpose, values, and principles

LABORAL Kutxa, formerly *Caja Laboral Popular*, is the primary entity of a group composed of *Caja Laboral Popular Coop. de Crédito* (hereafter, *LABORAL Kutxa*) and eight dependent entities⁵ operating in two business areas: banking and insurance. It resulted from the merger of three different entities in 2013: *Caja Laboral Popular*, *Ipar Kutxa*, and *Seguros Lagun Aro*.⁶ *LABORAL Kutxa* is the second-largest financial entity of the Basque Territory. In 2022, it reported 2,080 employees, 1,151,286 customers, and total assets of 27.7 billion euros (*LABORAL Kutxa*, 2023).

In line with standard credit cooperatives, *LABORAL Kutxa* complies with the basic principles of cooperativism. Its members govern it, with the particularity that it has different categories of members: users (cooperatives and customers) and workers (active and retired). It is not listed on the stock market; its equity⁷ belongs to worker- and user-members. As a financial entity, as Txomin Garcia, President of the Governing Council, explained, *LABORAL Kutxa*'s business model central vortex is its customers. However, *LABORAL Kutxa*'s cooperative identity and its members' understanding of their duty towards their customers result from a single organizational culture. In his words:

Historically, year after year, *LABORAL Kutxa* occupies the first position in customer satisfaction... I believe that this stems from a way of understanding relationships. The importance we give to the person first... I think it generates a culture affecting also our relationship with our customers. [It's] part of our culture... and I think it is an element that influences everything: the relationship with the cooperatives, the proximity... *Caja Laboral*, in those foundational aspects of social commitment, of social transformation through your activity, is the entity that promotes the *ikastolas*,⁸ cultural projects, new artists... in the worst years, it is involved with the social fabric by its own origin. We are here to advance society. And probably, that kind of

⁵ Dependent entities are *Seguros Lagun Aro Vida, S.A.*; *Seguros Lagun aro, S.A.*; *Seguros Lagun Aro, A.I.E.*; *Caja Laboral Gestión SGIIC, S.A.*; *Caja Laboral Pensiones GFP, S.A.*; *ISGA Inmuebles, S.A.*; *Caja Laboral Euskadiko Kutxa Cartera, S.L.U.*; *Caja Laboral Bancaseguros (CLBS), S.L.U.* *Ategi Green Power, S.L.* is an associated entity, with participation of 28.57% from *Caja Laboral Popular S. Coop.*

⁶ *Ipar Kutxa* was a credit union based in the Basque region. The case of *Seguros Lagun Aro* is different because it cannot be considered a merger of different companies. *LABORAL Kutxa* increased its ownership and integrated its business and most of its network into the bank branches.

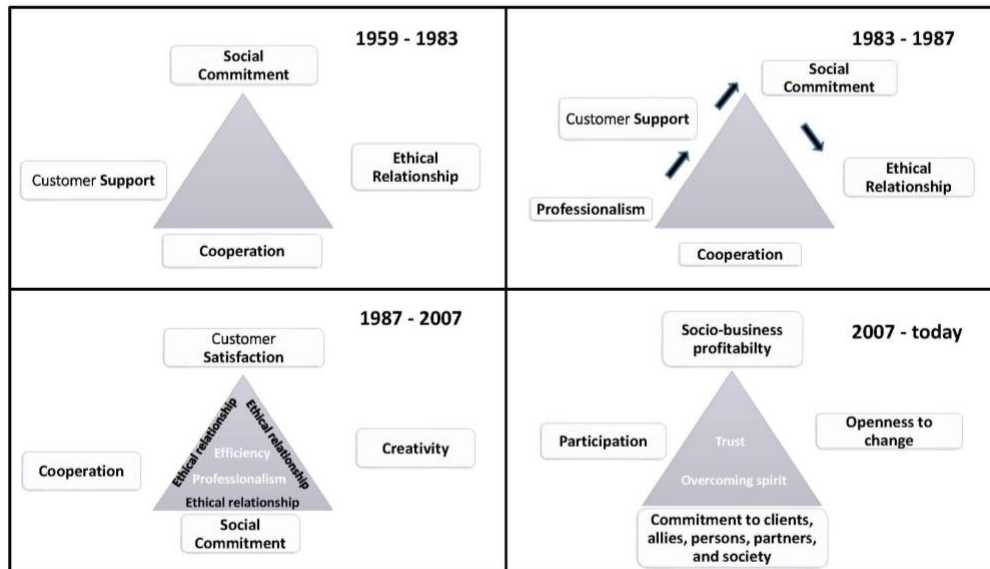
⁷ By equity, we mean the financial value held collectively by the different classes of member-owners.

⁸ *Ikastolas* were the schools in the Basque language created clandestinely by parents during Franco's dictatorship. Today, *Ikastolas* are private schools integrated into the education system where the Basque language is the only vehicular language.

behavior is what helps to have a position... I think it is a key element of the success of *LABORAL Kutxa*. (Txomin Garcia, 2021/11/05)

This attempt to find a balance between principles and values from different realms (social and business; cooperative enterprise and banking) on the basis of a single identity and culture (the Mondragon Cooperative Experience) can be easily understood by looking at the evolution of its values pyramid over time (**Figure 2**).

Figure 2: Evolution of CLPs values pyramid 1960–today (Caja Laboral Popular, 2009)



Compared to the foundation and expansion period (1959–1982), CLP diversified its business model in the consolidation period (1984–1987), opening up to make loans to private individual customer and not only to cooperatives. Accordingly, customer satisfaction and customer care support gain centrality in its value system, together with the internalization of the importance of efficiency or professionalism. This relocation of CLP's relation to its context entails reinterpreting its fundamental values. For example, the resignification of the essential value of cooperation as participation and compound social and business nature of its profitability. The evolution also shows how CLP integrates values like creativity or openness to change in line with innovation, becoming one of its central pillars. Or how CLP widens its service vocation from cooperatives to customers, allies, persons, and the wider society.

The evolution of different aspects of the value system reflects an attempt to adapt to internal and external dynamics affecting the position of CLP within the MCE and the broader society without renouncing its original purpose: its commitment to social transformation.

4 The governance of LABORAL Kutxa

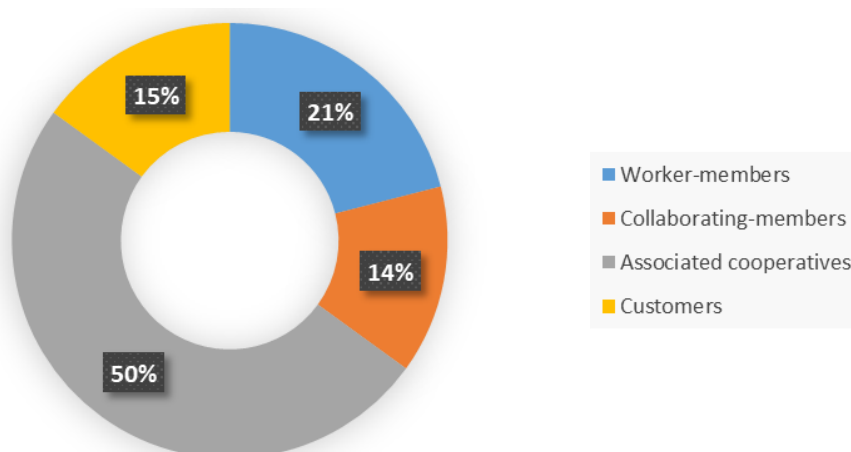
Governance has been defined as the capacity of an organization to fulfill its goals "in a way consistent with [its] purpose" (Novkovic and Miner, 2015, p. 11). It is a complex phenomenon involving formal organizational structures, the processes within, among, and surrounding those structures, and their evolving dynamics over time – in short, structures, processes, and dynamics (Eckart, 2009; Novkovic & Miner, 2015; Novkovic & McMahon, 2023). In formal terms, the most basic nature of an organization's governance structure is defined by legislation and internal by-laws (the composition and selection of participants, their purview and relative authority, etc.).

In *LABORAL Kutxa*, the complexity of, and interest in, governance results from the particularity that the structure defined by its internal by-laws (ownership, decision-making bodies, purpose and distribution of surplus, or avenues of member/stakeholder participation) mostly remains in place, although its purpose has evolved. In addition, *LABORAL Kutxa*'s governance is primarily determined by the Spanish Law of Cooperatives. However, as a financial institution, it is also under the supervision of the Bank of Spain and subject to EU banking legislation and regulations issued by the European Central Bank.

4.1 Ownership structure and types of membership

Currently, *LABORAL Kutxa* is a credit cooperative composed of four kinds of members representing the two main stakeholder groups of the cooperative: worker-members (active and retired) and users (cooperatives and customers). As summarized in **Graph 2** below, associated cooperatives retain the leading share of the equity capital of *LABORAL Kutxa* (50%), corresponding to 391.31 million euros in 2022, owned collectively by each category of members. Next are worker-members, who hold 35%: 21% (168.2 million euros) in the case of active workers and 14% (115.32 million euros) in the case of retired worker-members, who participate in the equity capital of the cooperative under the category of collaborating-members. Finally, customers hold 15% (122.82 million euros) as user-members.

Graph 2: Ownership structure of LABORAL Kutxa in 2022 (LABORAL Kutxa 2022)



This composition is not typical of credit cooperatives; it results from the historical evolution of *LABORAL Kutxa*. Cooperatives are owners because they created the bank for the purpose of supporting them, and workers are owners because the cooperatives of the Group made *Caja Laboral Popular* following the model of Mondragon worker cooperatives. Indeed, it was not until 2012 that individual users (customers) entered into the ownership structure of *LABORAL Kutxa*, and it was because of the merger with *Ipar Kutxa*. *Ipar Kutxa* (1985) was a typical credit cooperative whose members were its users/customers. To facilitate the union of both entities, *Caja Laboral Popular* changed its internal by-laws and included the possibility for customers to become cooperative members. The mechanism employed was a capital increase in which a certain number of customers were allowed to participate. But this option only remained until the capital increase was made. Afterwards, customers were no longer allowed to become members of the cooperative.

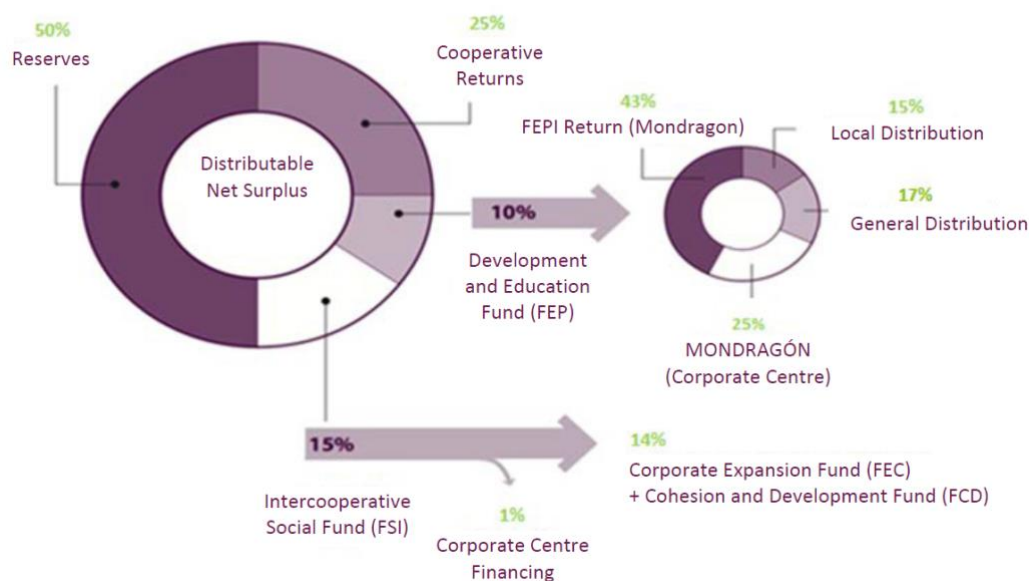
Hence, *LABORAL Kutxa*'s ownership structure comprises worker-members (active and retired), associated cooperatives, and customers. Each member/owner category takes a different role and establishes a particular relationship with the organization.

The cooperatives' relationship to LABORAL Kutxa is less that of an owner of its property, or a customer to its service provider, than it is that of a protector of a legacy.

Regarding the cooperatives, their relationship to the entity is less that of an owner of its property, or a customer to its service provider, than it is that of a protector of a legacy. The capacity of *LABORAL Kutxa* to support the cooperatives' business ventures has been diminished for several decades since the intervention of Spain's central bank in the 1980s. *LABORAL Kutxa* cannot, by law, share risks with the Group for an amount greater than 25% of its own resources. In practice, this means that the total investment of *LABORAL Kutxa* in the Group can be, at most, 4% of its total credit portfolio.

However, *LABORAL Kutxa* retains a very tight commitment to the sustainability of the Mondragon corporation. For example, as shown in **Figure 3**, *LABORAL Kutxa* voluntarily contributes a substantial part of its annual surplus (15%) to the Inter-cooperative Social Fund of the Corporation, as non-refundable investments,⁹ and a considerable amount of its FEP¹⁰ (43% + 25%) to the structures and funds located in the Corporate headquarters.

Figure 3: Distribution of funds in *LABORAL Kutxa* (*LABORAL Kutxa*, 2022)



Put another way, at present, the relationship between the cooperatives and *LABORAL Kutxa* is less about functionality than it is about meaning and signification. As underlined by Txomin Garcia, *LABORAL Kutxa* is "more than a financial entity, [it] is an institution, a reference for us all" (Txomin Garcia, 2021/05/11).

***LABORAL Kutxa* voluntarily contributes a substantial part of its annual surplus (15%) to the Inter-cooperative Social Fund of the Corporation...**

Regarding worker-members, their inclusion in the ownership structure is quite unique in European credit cooperatives. This particularity results from the role played by industrial cooperatives in its creation back in the '60s. As they tend to recognize, the founders of CLP had little idea about the banking business, whether cooperative or not, but worker ownership was a fundamental principle (Ormaetxea, 1998). However, the hegemonic position of the cooperatives in *LABORAL Kutxa* vis-à-vis its worker-members is not under question. In short, the idea is that

⁹ For example, the industrial cooperatives of the group invest 10% of their surplus, 5% as non-refundable, and 20% of their COFIP.

¹⁰ The Education and Promotion Fund (In Spanish, Fondo de Educación y Promoción or FEP) is a taxation rule specified in the Spanish Law of Credit Cooperatives (13/1989) whereby cooperatives should devote a percentage of their annual surplus to activities of public interest in order to be entitled to enjoy the fiscal benefits of cooperatives' taxation regime. In Spanish credit cooperatives, 10% of annual profits should be allocated to this Fund.

the entity does not belong to its workers; it is their duty to take care of its legacy for future generations.

Several measures have been taken to guarantee this mandate. For example, initially, only worker-members had the right to receive so-called “returns”, namely, a portion of the annual financial surplus. This distribution

The idea is that the entity does not belong to its workers; it is their duty to take care of its legacy for future generations.

created an imbalance as the weight of worker-members' shares grew by the simple passage of time, at the expense of that of associated cooperatives whose participation remained at the initial contribution of capital. To solve this, worker-members sold a part of their capital to the cooperatives and included them as beneficiaries of “returns”. In this way, cooperatives were guaranteed to retain about half of the ownership of *LABORAL Kutxa*.

On the contrary, individuals are valued as members in their capacity as users (or customers) but generally *not* as owners. As customers, users are the main stakeholders of *LABORAL Kutxa*, the core focus of its current vision and mission. However, their position is marginal in the General Assembly, and they have a limited capacity to affect the strategic orientation of the entity or decision-making in formal ways. An example of this is the distribution of surplus. Users as customers receive their part of the interest on capital as do other members, but they do not participate in the distribution of surplus in the same capacity as associated cooperatives or worker-members.

In *LABORAL Kutxa*, the distribution of surplus follows a particular logic. The basic idea is that the distribution is not proportional to the participation of members in the company's equity capital but to their *contribution*. For example, worker-members have different salaries depending on their position, so it can be the case that a newer member has a higher salary than an older cooperative member. Following this logic regarding surplus distribution, work precedes capital (the basic principle in MCE), and salaries serve as a proxy to measure the work contribution of each worker-member. Hence, in our example, the newer member will receive a greater share of the surplus than the older member.

In the case of worker-members, this proxy guarantees an equitable distribution of surplus because, unlike other entities in the banking sector where salary ratios of lowest to highest paid are on average 1 to 118, in *LABORAL Kutxa*, salary ratios do not surpass a 1 to 5 ratio. However, the situation is less egalitarian when the same principle applies to juridical and physical persons. In the case of associated cooperatives, for example, there is no salary ratio, so their *contribution* is calculated by the quantity of business they provide to *LABORAL Kutxa*. The same criteria apply to individual user-members, too. However, no user-member can make a *contribution* significant enough to enjoy a surplus.

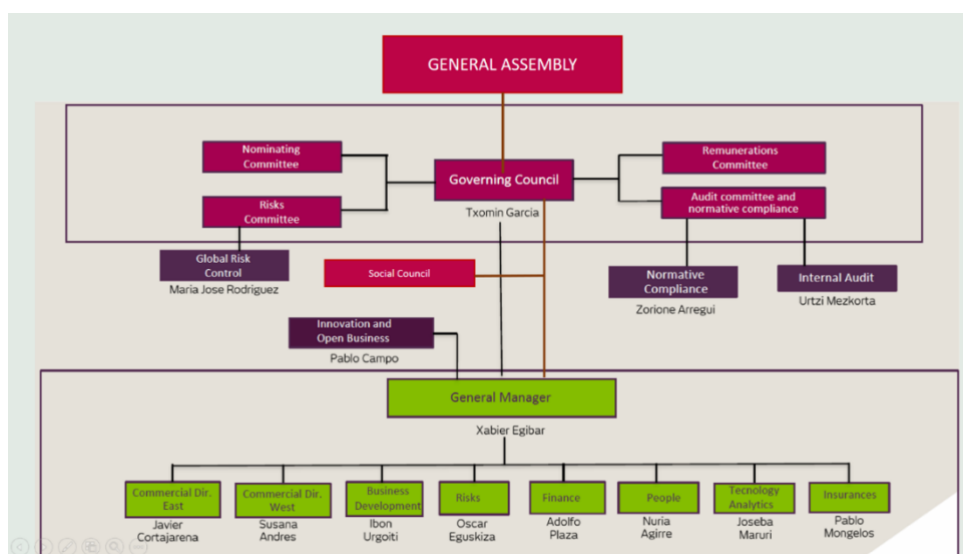
The ownership structure of *LABORAL Kutxa* reflects an attempt to find a balance among worker-members (active and retired), associated cooperatives, and customers aimed at responding to the organization's evolution, without losing sight of its original purpose.

To sum up, the ownership structure of *LABORAL Kutxa* reflects an attempt to find a balance among worker-members (active and retired), associated cooperatives, and customers aimed at responding to the organization's evolution, without losing sight of its original purpose. This search for an equilibrium between permanence and adaptation also defines the roles and functions of its governance bodies.

4.2 Organizational setup, election mechanisms, and decision-making processes

LABORAL Kutxa's basic governance structure (Figure 4) is composed of the General Assembly (GA), Governing Council (GC), Management Council (MC), and Social Council (SC).

Figure 4: The governance structure of *LABORAL Kutxa* (adapted from laboralkutxa.eu)¹¹



¹¹ The Social Council is not part of the official governance structure of *Laboral Kutxa*. We have added it to the diagram for clarity.

The General Assembly

The General Assembly (hereafter, GA) is the highest governing authority in the firm, composed of all cooperative members, including workers, cooperatives, users, and collaborators. Like in any other cooperative, the GA holds the capacity and responsibility to decide on basic rules and regulations, strategic issues (i.e., approval of the balance sheet) and the election of members to its representative bodies (e.g., appointment and dismissal of the Governing Council). It is called at minimum once a year by the Governing Council and presided over by the President of the GC. A simple majority makes decisions, and the GC establishes the agenda. However, any cooperative member can request the introduction of a topic in advance and ask for information and clarifications in session.

The composition of the GA is specified each year under the principle of "one person, one vote", although the doctrine is not applied *stricto sensu*. For example, members in each membership category have a minimum capital contribution to make. In 2023, this capital contribution amounts to 15,000 euros for permanent worker-members, 1,500 for non-permanent worker-members,¹² 11,500 euros for cooperatives, and 2,300 euros for individuals. To these quantities is added a 3,000 euro entry fee for any kind of member. The compulsory membership capital contribution, and the fulfillment of other basic membership requirements (e.g. participation in governing bodies if elected), earn a member one vote in the GA. Therefore, every member has one vote in the General Assembly. But, a member receives an extra vote for every 2,000 euros contributed on top of the compulsory membership capital contribution of a worker-member; in this case 15,000 euros.¹³ Even though no juridical person may have more than 20% of the votes in the General Assembly, and no physical person more than 2.5%. In other words, as we can see in **Table 1**, the vote is weighted to some degree based on the *capital* contribution of members. For example, member cooperatives hold 49.0% of the equity share and have 54.4% of the votes, while customer members hold 15.4% of the equity share but have 10.6% of the votes. There are several reasons for this.

¹² Non-permanent worker-members are those in a trial period until they become permanent members.

¹³ This extra capital contribution can only be made together with the initial membership capital contribution. There are two exceptions. One is in the context of a capital increase. Laboral Kutxa cannot finance itself in the market so, if required, it can call for an internal capital increase in which members can expand their share in the equity capital. Another exception is when a worker-member decides to sell his or her share to another worker-member. In this case, the equity capital remains the same although its distribution changes, but this option is only available for worker-members.

Table 1: Distribution of equity share and votes in the General Assembly by member category in 2022 (Source: Laboral Kutxa)

Member category	Member type	Initial Capital contribution (euros) ¹⁴	Nº of members	Nº of member (%)	Equity share (million euro)	Equity share (%)	Votes in the GA (nº)	Votes in the GA (%)
Natural persons	Worker-member ¹⁵	15,000 (perm.) ¹⁶ / 1,500 (non-perm.) ¹⁷	1,774 (perm.) + 96 (non-perm.)	15,74 (perm.) + 0.85 (non-perm.)	168.24 (perm.) + 0.18 (non-perm.)	21.1 (perm.) + 0.02 (non-perm.)	73,526 (perm.) + 99 (non-perm.)	20.6 (perm.) + 0.03 (non-perm.)
	Collaborating-member ¹⁸	-	1,048	9,3	115.32	14.5	51,439	14.4
	Customer members ¹⁹	2,300	8,167	72,5	122.82	15.4	37,868	10.6
	TOTAL		11,085	98,4	406.56	50.9	162,932	45.6
Legal Person	Cooperative members ²⁰	11,500	183	-	391.31	49.0	194,659	54.4
	TOTAL	11,500	183	-	391.31	49.0	194,659	54.4
	TOTAL	-	11,268	-	797.87	100	357,591	100

According to José María Ormaetxea, General Manager of CLP between 1959 and 1987, weighing voting rights depending on capital contributions was a kind of middle-ground solution found in the context of negotiations between CLP and Spanish regulators. He explains that, in the context of the consolidation of CLP and the extension of its operating capacities outside the cooperative ecosystem, they participated directly in drafting the Spanish Law of Credit Cooperatives of 1989. This law, in its 9th article, establishes that every member of a credit cooperative will have the right to one vote in the General Assembly. Still, if the by-laws allow it, the vote of members will be proportional to their capital contributions, the activity deployed, or the number of members of the cooperative. He explains:

Furthermore, such was the propensity for operational non-differentiation, advocated by the Bank of Spain and the Ministry of the Economy, that it was hard to include the concept of proportionality of the vote to the number of members of the cooperative, a practice that was being used in Caja Laboral from its origins. (Ormaetxea, 1998, p. 285)

14 Add to this an entry fee of 3000 euros per member.

15 We consider here together permanent and non-permanent worker-members.

16 Permanent worker-members.

17 Non-permanent worker-members.

18 Collaborating members are retired worker-members.

19 In this category are all other physical persons.

20 In this category we include all juridical entities, associated cooperatives, and other legal persons.

Therefore, weighted voting rights by capital contribution can be understood as a compromise solution for the regulator to accept the nuances in applying the principle of "one person, one vote" in *Caja Laboral Popular*.

Currently, linking voting rights to participation in equity capital also guarantees a balance among cooperatives, workers, and customers regarding their decision-making capacity in the General Assembly.

Historically, the distribution of voting rights in the General Assembly provided 53% for the associated cooperatives and 47% for worker-members (active or retired). In the GA, decisions are taken by a simple majority, except for those decisions with irreversible consequences for which an enhanced majority of two-thirds is required (i.e., mergers and segregations or modifications of the by-laws). Hence, only associated cooperatives can block decisions in the GA. As members of a democratic organization, workers have the right and the duty to participate, and ownership empowers them to do so. But theirs is not the primary decision-making power.

Including customers as user-members also challenges a strict interpretation of applying the principle of one person, one vote in the GA. For example, in 2016 there were 2,094 worker-members, 724 collaborating members (retired workers), 207 firms (cooperatives and businesses), and 9,384 customers in *LABORAL Kutxa*.

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Worker-members had a 24.8% share of the equity capital, collaborating members had 10.1%, associated cooperatives had 46.1%, and customers had 19%. Weighing votes to equity capital counterbalanced the consequences of applying the principle of "one person, one vote" literally because, in this case, customers would easily outnumber workers' and associated cooperatives' votes in the General Assembly.

The Governing Council

The Governing Council (hereafter, GC) is a representative body elected by the General Assembly and is legally responsible for the fate of the cooperative. It represents the GA and it is the firm's highest authority when the GA is not in session. Its structure is not standard. It consists of a plenary meeting monthly and four different committees: (1) nominations, (2) risk management, (3) remuneration, (4) internal audit and compliance. Historically, the plenary of the GC has been formed by 12 members: four elected by and among worker-members and eight by and among associated cooperatives. The by-laws establish the number of GC members that should be elected among (active) worker-members but say nothing about the representation of

other kinds of members. Currently, the by-laws establish that the Governing Council is composed of 14 members, among which four need to be elected by and among worker-members. User-members can be part of the GC, although they are not currently represented in the GC. Members do not receive a salary but since 2022, they are compensated for their expenses.²¹

Like in the General Assembly, regular decisions are taken by a simple majority. Therefore, worker-members do not have sufficient votes to make decisions independently; only associated cooperatives do. However, our interviewees report that decision-making processes at the GC mostly follow a consensual logic, and associated cooperative representatives do not act following a partisan or strategic agenda. In the words of Txomin Garcia, President of *LABORAL Kutxa*:

They are our people, they are people from the Group who want to help things work well... they are not the inspector on duty... so, I do not distinguish the function of one from the other... I think they are people that, from their perspective, try to contribute... I was really delighted with the team we had, we had worked hard, transversally, we had people from finance, from the industry, people with more experience in management... well, people who, at their scale, [were] providing a different vision from the one we have in banks. (Txomin Garcia, 05/11/2021)

On the other hand, the GC comprises the plenary and four different committees as mentioned above: nominations, risks, remunerations, and internal audit and compliance. The number, functions, and composition of each of these committees are regulated by law, in accordance with the Bank of Spain, and follow the general guidelines²² of the European Central Bank.

For example, all committees are formed by a minimum of three members named by the plenary of the GC among its members, but candidates should comply with specific requirements. All members of all committees have to be "non-executive" members of the GC, meaning they cannot hold high-ranking responsibilities in the organizational structure of *LABORAL Kutxa*. Also, all committee presidents and at least one-third of the members of each committee (and a majority of them in the case of the audit and

Decision-making processes at the GC mostly follow a consensual logic.

²¹ For a short period of time, in the context of the merger with *Ipar Kutxa*, user-member representatives were included in the GC plenary. To avoid altering the balance between associated cooperatives and worker-members, the GC was enlarged to 15 members. The by-laws were not modified afterward, but, in practice, the GC was brought back to 12 members soon after. The Bank of Spain recommended its number being 14 members in 2022, and the GC is approaching this number, also in practice, by including independent members.

²² The *Supervisory Review and Evaluation Process* (SREP Methodology) is specified in the *Global procedures and methodologies for SREP and supervisory stress testing* (EBA 2018). It can be consulted here: https://www.bankingsupervision.europa.eu/banking/srep/2021/html/ssm.srep202101_supervisorymethodology2021.en.html (Last consulted: 2023/07/10)

compliance committee) need to be independent. Independent members are those who have no personal affiliation with the company. For example, worker-members cannot be independent members of the GC, and the president of a committee cannot be a president of another committee. The committees meet regularly, a simple majority takes decisions, and the president holds a tie-breaking vote.

One consequence of these rules is that worker-members can neither preside over a committee (e.g., chair) nor conform to a majority at any committee of the GC because they cannot be considered independent. Worker-members with no high-ranking positions can be part of them but cannot preside over them.

All members of all committees have to be “non-executive” members of the GC, meaning they cannot hold high-ranking responsibilities in the organizational structure of LABORAL Kutxa.

Moreover, these limitations also affect the composition of the plenary, insofar as the GC appoints all committee members among its members. In this case, the challenge is that due to the composition of the committees, at least four members of the GC have to be qualified as non-executive independent members of the GC. Also, the by-laws of *LABORAL Kutxa* and the *Rules of Procedures of the GC* establish that four members of the GC have to be selected among worker-members. The result is that the integration of independent members alters the historical balance between worker-members and associated cooperatives in the GC in favor of the former; so far, only six seats remain to be distributed among other members, namely associated cooperatives and user-members. Until now, members of other cooperatives of the Group were accepted as independent members. However, this option is under question, assuming that *LABORAL Kutxa* will become a “significant entity”²³ by 2025 in the European Banking System.

Finally, candidacies for the GC are also filtered regarding their suitability for membership in the Council. According to cooperative law and internal by-laws, any member of *LABORAL Kutxa* may be elected to the GC. A term lasts five years, and three members are renewed every year. Candidates must be formally presented to the Governing Council, which brings them to vote for election in the General Assembly. Once elected, the Governing Council should inform the Bank of Spain, but candidates must comply with specific criteria. For example, their suitability is assessed. Suitability refers to criminal records, expertise, educational background, experience, and so on, and the supervisor of the Bank of Spain evaluates it at the level of each candidate and for the GC as a whole. Namely, it is not sufficient that the candidate fulfills, for example, the

²³ “Significant entities” are those that, due to their size, can be of general concern because they can put the entire European economy at risk. In the case of *LABORAL Kutxa*, the European Central Bank does not apply these mechanisms directly. *LABORAL Kutxa* is not a “significant entity” for the ECB. Nevertheless, it is the most significant entity that remains under the supervision of the Bank of Spain. This means that, in practice, it should comply with the same regulations.

academic requirements for the post; their contribution of expertise to the Council needs to be complementary to the rest of the members of the Council.

The Management Council and the Social Council

The last two pieces in the governance structure of *LABORAL Kutxa* are the General Council and the Social Council. The Governing Council appoints the firm's senior manager, and must approve that person's choices for the senior management body, called the Management Council. The Management Council comprises the General Manager and eight different area directors²⁴ (Sales & Marketing East, Sales & Marketing West, Business Development, Risk Management, Finance, People, Technology and Analytics, and Insurance). It is a top-down organizational structure. Accordingly, the General Manager assumes responsibility for it. It has full autonomy to operate, but the General Manager acts under the supervision of the Governing Council, to whom it reports monthly and by whom it can be dismissed.

Moreover, in the case of *LABORAL Kutxa*, control and collaboration regarding General Management proceeds through several channels. For example, all committees in the GC have their executive counterpart (i.e., the Risk Management Committee and the Global Director for Risk Management). Committees have recognized autonomy to act based on a clear distinction between executive and non-executive functions within the governance structure. However, the relationship between executive directors and committees is established regularly; namely, area directors participate (with voice but no vote) in committee deliberations. The same happens with the General Manager and the Governing Council; the General Manager cannot be part of the Governing Council but takes part in its meetings on a regular basis, with voice but no vote.

On the other hand, the General Manager also reports every month, together with the President of the GC, to the Social Council. The SC is not compulsory by law for all cooperatives, and its status is consultative; its role is to facilitate communication between worker-members, the Governing Council, and the General Manager as well as among different areas of the firm. In the Mondragon context, every cooperative with more than 100 members must have a Social Council. Indeed, it is a body composed exclusively of worker-members, and its role is essential in multistakeholder cooperatives, as we have explained elsewhere (Imaz, Freundlich, & Kanpandegi, 2023). However, the definition of roles and functions mostly depends on the by-

The General Manager cannot be part of the Governing Council but takes part in its meetings on a regular basis, with voice but no vote.

²⁴ The term "director" in Mondragon parlance refers to a management position, not a position on a governance body; it does not refer to a member of a board of directors.

laws and regulations of each cooperative. For this reason, the Social Council's role in the particular case of LABORAL Kutxa is meaningful.

According to LABORAL Kutxa's by-laws, the Social Council is the worker-members' voice. It is defined as the permanent representation of worker-members' interests in their double role: as workers and members. It is composed of 20 members, although the exact number changes depending on the territorial distribution of the cooperative. Territorial sectors elect members, and they represent in the plenary of the SC their territorial sector or so-called "mini-council": local branches of the SC, usually composed of all worker-members at each delegation of *LABORAL Kutxa*. Worker-members elect representatives in the SC democratically with four-year terms, although they can be renewed every two years. Also, any worker-member can raise an issue to the General Council via the mini-council.

The fact that the internal by-laws of *LABORAL Kutxa* provide the SC with enhanced capacities to operate reflects a recognition of its worth. According to its internal by-laws, the SC is an independent body; it is not hierarchically subordinate to any other body and has a technical secretary to ensure its proper functioning. On the institutional side, it has several capacities: the inclusion of issues in the General Assembly, the appointment of candidates for the GC, or the ability to call for an extraordinary GA, GC, or Management Council with two-thirds of the votes in the SC. On the labor-professional side, it has particular executive and decision-making capabilities delegated by the GC, including disciplinary and compensation decisions and the management of certain internal funds of the cooperative (i.e., the distribution of a part of the FEP). It also has bargaining capacity; it can, for example, call for reconsideration of decisions of the Management Council to the GC and even the General Assembly. In other words, it has the capacity and duty to participate actively in the governance of *LABORAL Kutxa* and exercise collaboration and control over the regular functioning of the Management and Governing Councils.

The Social Council has the capacity and duty to participate actively in the governance of *LABORAL Kutxa* and exercise collaboration and control over the regular functioning of the Management and Governing Councils.

5 Governance dynamics and future challenges

In the short term, a major challenge for the governance of *LABORAL Kutxa* is the designation as a "significant entity"; it will become the only cooperative bank among the 144 "significant" financial entities in the European banking system. The implications of this change are profound. On the one hand, the governance of *LABORAL Kutxa* will fall under the direct supervision of the European Central Bank. This transference will, quite clearly, entail more complex rules.

However, what concerns *LABORAL Kutxa* staff most is the mismatch between the European Banking Authority's vision of the banking business and the history, organizational culture, and cooperative nature of *LABORAL Kutxa*.

For example, in the case of *LABORAL Kutxa*, regulations restricting profiles for the members of the Governing Council might be considered to challenge the fundamental right of any worker-member to be elected. Moreover, the obligation to appoint independent members for about a third of the posts in the GC challenges the historical balance between its

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different internal stakeholders, namely, worker-members and associated cooperatives. However, the resulting composition of the Governing Council enhances its capacity to fulfill its duties *vis-a-vis* management. The GC should work together with the General Manager for the entity to be operative, and trust is a necessary condition but not sufficient. Knowledge and expertise are required, and profiling GC members guarantees that all GC members will have the necessary skills and expertise to fulfill their duties.

For a long time, *LABORAL Kutxa* found a balanced solution by including high-ranking executives from other cooperatives of the Group as independent members of the GC.²⁵ In this way, the composition of the GC not only fulfills the co-op's requirements as a financial entity, namely, that members have the necessary skills and expertise and have no direct involvement in the organization's business. Also, integrating other cooperatives' members in the GC of *LABORAL Kutxa* fits perfectly with its cooperative nature and history within the Mondragon Cooperative Experience. But this interpretation of the rule requires understanding the specific context and history of *LABORAL Kutxa*. On the contrary, supervisory entities find that the share of cooperatives of the Group in the equity capital of *LABORAL Kutxa* presents a conflict of interest that disqualifies them as independent members of the GC.

In the long run, *LABORAL Kutxa* will have to clarify the relationships among its current purpose, structure, and processes from the perspective of its main stakeholders: cooperatives, workers, and customers.

The internal structure and decision-making processes of *LABORAL Kutxa* reflect a power balance. The particular equilibrium makes sense regarding the co-op's origin as a credit cooperative created by industrial cooperatives to serve the expansion and consolidation of the

²⁵ As we have suggested elsewhere (Imaz, Freundlich & Kanpandegi, 2023), it might be a good practice to advance the debate on the inclusion of independent members in the GC of other cooperatives of the Group, too.

Mondragon Cooperative Experience. However, it is reasonable to expect that the growing centrality of customers in the definition of its purpose and value system might challenge the still relatively marginal position of customers in the ownership structure and decision-making processes of *LABORAL Kutxa*. Similarly, the diminishing role that cooperatives seem to be playing in the business and governance of *LABORAL Kutxa* might challenge the sustainability of their position in the General Assembly.

However, the main challenge might be the reinterpretation of the role of worker-members in this transformation. In the case of cooperatives, there remains a strong sense of belonging. *LABORAL Kutxa* is not just a bank but an institution, a legacy. Moreover, it is a different way of understanding the banking business. For example, salary ratios do not exceed 1 to 5, while the average in the banking sector, as we pointed out, is 1 to 118. For its worker-members, the historical legacy of the institution needs to match their daily experience of cooperative values and practices to remain meaningful. Enhancing the community orientation and reorienting the potential for social transformation of *LABORAL Kutxa* might represent an opportunity to re-signify its service vocation from the cooperatives to the community and the wider society. We can find an example of this in the cooperative's current reflection on sustainability.

LABORAL Kutxa is one of the leading cooperatives in the Mondragon ecosystem regarding sustainability. The motivations are closely related to the role of the financial sector in the green and digital transition commanded by the European Commission. The obligation to release a non-financial report, issued by the European Commission in 2017, and the definition of a taxonomy defining "green" activities in 2022 reflects an attempt to push the private sector towards sustainability, and financial institutions are a powerful means to these ends. Indeed, they are well aware of the challenge and have a consistent record of efforts to align their business model with the requirements of the sustainable development agenda.

Enhancing the community orientation and reorienting the potential for social transformation of *LABORAL Kutxa* might represent an opportunity to re-signify its service vocation from the cooperatives to the community and the wider society.

Moreover, they see their commitment becoming even more profound. Javier Alli Vierge, responsible for quality and sustainability in *LABORAL Kutxa*, explained it as follows: "There is another part that is not purely about business, benchmarking... it has to do with redefining what cooperativism is like today" (Javier Alli Vierge, 2021/05/12). The challenge of adapting their business model to sustainability responds to a motivation coming from the outside. It is about regulation, benchmarking, and position in the market, but he finds it can be something more. He speaks about change because concerns about environmental sustainability are relatively new

in the Mondragon context. But he also talks about the opportunity it represents for the resignification of what being a cooperative is and, finally, links it to the most basic value of *LABORAL Kutxa*; he defends the idea that sustainability can be understood as a potential way to reorient the service vocation of *LABORAL Kutxa* towards the wider society.

6 Conclusions

LABORAL Kutxa is a fascinating case because its history speaks to the history of the Mondragon Cooperative Experience as a whole. It was created to serve the consolidation and expansion of the MCE, and it was structured to serve these ends concerning its ownership structure and decision-making processes. We have also seen that this purpose has evolved in response to internal and external challenges. Accordingly, the structural setup and democratic processes inside *LABORAL Kutxa* reflect an attempt to cope with these challenges, remaining faithful to its service vocation.

The case is also interesting as a very particular example of a multistakeholder cooperative. Stakeholders in *LABORAL Kutxa* cannot be understood as actors with conflicting stakes, each pursuing its own interests. The case presents a genuine approach to a cooperative

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understanding of stakeholders in solidarity, those who share a common purpose and find the appropriate means to advance these shared goals in the cooperative. However, the case makes it clear that a shared purpose cannot take the alignment of its different stakeholders for granted, and finding the appropriate balance requires flexibility and imagination.

LABORAL Kutxa shows that it is possible to succeed in a very unfriendly environment for cooperative values and principles with cooperative means. Of course, success comes at a cost, and, it is not given that *LABORAL Kutxa* will succeed in the face of future challenges. Size and regulations might pose insurmountable challenges to *LABORAL Kutxa's* adaptability. Indeed, navigating the balance of costs and benefits in the face of internal and external pressures requires innovation. The *LABORAL Kutxa* example reflects that succeeding as a cooperative, even in a very hostile environment, is, at least to a certain extent, possible.

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