

# The Research of Democratic Management in Enterprises -- A Case Study on Mondragon Corporacion Cooperativa

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**Abstract:** Traditional strict hierarchy, organizational form, division and other disadvantages of the information age for workers is a constraint; in the rapidly changing market, the requirement of industrial upgrading requires the democratic management of enterprises to stimulate the enthusiasm of employees and improve the efficiency of enterprises. Group decision-making is one of the crucial parts in the implementation of democratic management, which can lead to the opposite of desirable outcome. By addressing this issue, enterprises are able to move forward on democracy. This paper takes case analysis as the main analysis method and Mondragon Cooperation as the research object to analyze the democratic management of enterprises. On the one hand, the conclusion of this paper has a certain theoretical expansion of democratic management theory, on the other hand, it has a certain role in promoting the theoretical application of the industry

## 1. Introduction

### 1.1 background

Nowadays, bureaucratic system has brought us too many problems in the business management. For example, strict hierarchy and rigid organizational form make employees unable to show their potential in innovation. As a result, employees are regarded as components in the machine, which means they are restricted by bureaucratic system. This article hopes to provide an aspect from democratic management of enterprises, in order to help enterprises have a better performance in the age of knowledge economics with the information technology developing fast. What's more, with the background of the proportion of knowledge workers is increasing, and humanism is becoming more and more prominent, we have to deal with new problems, like the power is too concentrated, the grass-roots employees are far away from the power center, the information communication caused by information asymmetry is not smooth, and the incentive effect is not conducive to improving the employees' sense of ownership. Hence, we use the method of democratic management of enterprises to solve the problems mentioned above, and to achieve more effectively realize communication, improve employee enthusiasm and enhance organizational cohesion.

Some theories nowadays also support the democratic management of enterprises. After World War II, the socialist movement flourished, which promoted the status of grass-roots workers to a certain extent. The hypothesis of human nature of economic man is outdated. Chris agris puts forward a new human nature theory: "immature mature theory", which holds that man is a developing organism and sound human nature will grow. However, the strict control of traditional organizations in terms of professional division of labor, hierarchical system, unified command and management range makes the organization members in an immature state. Agiris believes that hierarchy and unified command hinder the exertion of personal intelligence, and the requirements of self-realization are not met. In addition, the subjectivism and commandism of leaders will also lead to dissatisfaction among employees, which is unfavorable to the personal development of employees and the production

efficiency of the enterprise. According to the human nature hypothesis of "social man" put forward by Hawthorne's experiment, employees not only need material money, but also need personal respect. Enterprise democracy allows employees to determine their own development direction, which can meet the social needs of employees.

## 1.2 Definition

Enterprise democracy emphasizes that employees participate in governance and enjoy the fruits of labor. There are also views that emphasize workers' self-management, joint decision-making, factory committees, and trade union action [1]. In the author's opinion, enterprise democracy, on the macro level, represents enterprises to decide production and operation projects without being bounded by state bureaucrats independently; In the middle view, it emphasizes that employees jointly manage production activities with management through trade unions or party committees, and reform the constraints of bureaucratic system on employees in organization; At the micro level, it emphasizes trusting employees' self-management ability, participating in specific factory supervision and management, mastering their own labor, and sharing power and property rights with the management; On the whole, it protects the rights of employees, such as their participation right, controlling right. We have improved the treatment of employees and truly realized the master position of democracy.

## 2. Group decision-making

Group polarization refers to the phenomenon that the behavior of group discussion makes members' decision-making tendency more extreme. The result of group discussion is more risky than that of individual decision-making. It is not a good result for an enterprise or even for social stability.

The reasons for group polarization are as follows: "because people want others to make a positive evaluation of themselves, they will take more extreme ways to be consistent with the requirements of others or society [1] ". Due to the influence of enterprise informal norms, it has caused subtle psychological pressure to employees. The culture of collectivism seeking consistency in China aggravates the impact of this problem. Through the company's intranet, each member can input their demands into the computer, and everyone's opinions and votes will be displayed on the screen anonymously. Each member can express their opinions freely without hindrance to each other, reduce the chat time that may occur in face-to-face meetings, and improve the efficiency of meetings. It cannot only reduce the cost of time and space occupied by democratic management, but also reduce the pressure brought by collective norms in face-to-face communication.

Brainstorming can also help solve this problem. Given a specific problem, group personnel are required to propose as many solutions as possible. It is forbidden to criticize others' solutions at the stage of proposing solutions, encourage members' free imagination, and do not restrict members' special solutions. This can reduce the psychological pressure brought by group norms to members to a certain extent.

Specific group name technology can also help solve the problem. First, the members shall propose the scheme separately, then record the scheme, list the scheme, classify the scheme and vote. Except for the selection in the final stage, the scheme cannot be selected in other stages.

Brainstorming and specific group name technology have something in common to solve the impact of group polarization and group norms: they do not criticize or object to the proposal. Members can freely put forward their own views, and the balance and combination of multiple views can get more rational results. It also eliminates the team's criticism of the feasible scheme, reduces the psychological tension between members and the group, reduces the pressure of group norms, and reduces the phenomenon of group polarization caused by catering to group opinions.

Group thinking refers to a thinking mode within a highly cohesive group, in which people excessively pursue group consistency in decision-making and thinking, resulting in the group's failure to make an objective evaluation of the solution to the problem [2]. The main reasons are as follows: fear of being rejected by the group; I don't want to hurt the morale of the group. If the leader of the

team is a guidance type and there is too much external pressure, there is little chance to find a better solution than the choice preferred by the leader [2], which is an important reason for group thinking.

In addition to the brainstorming method and specific group name technology mentioned above, the leaders of the team also need to accept the criticism of the members. In order to prevent the group from abandoning the objective reality for the sake of harmony, the leaders criticize the members' schemes according to their own macro situation or professional knowledge after all schemes are put forward, so as to achieve the effect of mutual supervision and common progress.

At the same time, in the new situation of democratic management of enterprises, the stereotypes formed in the old system should be eliminated. For example, employees believe that leaders are superior and agree with the absolute authority of leaders; Leaders think that the knowledge of employees is narrow and look down on the stereotype of employees. If a stereotype is generated, it may lead to the following situations: if we have a stereotype of the opponent, we may use any measures against the opponent who is not worthy of respect. And the self-awareness is too strong to objectively evaluate and understand themselves, and refute them without consideration in the face of objections, which will also cause disaster to group decision-making. This requires the team to strengthen mutual understanding and communication outside the decision-making time. We should also "examine ourselves three times a day" to increase employees' decision-making ability.

In group decision-making of democratic management, the complementary advantages of group decision-making can be used to balance various extreme opinions. In terms of age structure, experienced old managers complement the innovative spirit of young employees; In terms of knowledge structure, managers with organizational behavior knowledge are combined with employees with engineering and technical knowledge. In order to show their talents, leaders or influential people will prefer more risky schemes. At the same time, due to the phenomenon of group polarization, the trend of adventure will be amplified. Therefore, different personalities of different employees need to be complementary, so as to avoid the situation that the overall plan tends to a personal plan due to too strong personal characteristics, and every decision-maker should be given an equal voice and status. On the other hand, equal discussions can only be carried out under the condition of "equal or similar level", which helps to avoid the phenomenon of "group deviation"[2]. This requires that everyone's position in group decision-making should be roughly equal under the speaking condition. The multidimensional (or multi-functional) of an organization is not as effective as the multidimensional of individuals, because individuals are the most basic unit of innovative thinking [2]. This requires enterprises to strengthen the training of employees' relevant knowledge of operation and management at the same time.

### **3. Deal with contradictions**

In the democratic management of enterprises, some hidden contradictions that cannot be expressed by employees when the leadership makes decisions alone will be shown in collective decision-making. Conflict is not necessarily a problem of dysfunction, nor does it necessarily undermine the stable development of the organization. According to the perspective of interpersonal relationship, because different members of the organization have different goals for different functions and different members have different personalities, conflicts will inevitably occur within the organization. Since the conflict cannot be completely eliminated, it is necessary to change the attitude towards the conflict [4]. The view of interaction more clearly encourages the emergence of conflict. "Encouraging managers to maintain a minimum level of conflict and allowing conflict to exist" harmonious relationship cannot arouse the team's innovative spirit. Behind the harmony may reflect the silence of the team as a backwater. There is no conflict in the group, and its members will fall into complacency or indifference; If the conflict has been suppressed in the atmosphere of "harmony and tranquility", instead of reflecting the problems of the enterprise in the conflict, or allowing the demands of interest groups (most of which are reflected as vulnerable employees in modern times) to

be expressed; When the problem is difficult to cover up, or the contradiction between different interest groups has reached a level that is difficult to solve, it will be a devastating blow to the enterprise.

However, too fierce conflict also has an adverse impact on the development of enterprises. Too many conflicts may lead to hostility and lack of cooperation among members. For example, conflicts involving the basic objectives, core values and fundamental interests of the enterprise need to reach a consensus on this in democratic management, expose the contradictions in the process of determining the basic objectives, and allow employees to fully express their opinions in the decision-making process, so as to avoid the basic conflicts arising afterwards. Personalized conflict has strong personality characteristics, which cannot be avoided whether in democratic management or bureaucratic system. However, the strict division of labor among departments under the bureaucratic system will lead to a lack of understanding among personnel in different departments, which is easy to lead to stereotypes. Democratic management breaks the traditional rigid departmental restrictions, can strengthen the communication and understanding among members, and reduce the personalized conflict caused by the stereotype caused by insufficient understanding. Purposeful conflict has a strong emotional color. In essence, it is to vent dissatisfaction, not to the root cause of the conflict [4].this requires democratic management to provide a channel for employees to express their dissatisfaction, but the traditional bureaucracy is like a machine composed of people but with no human feelings and good operation. People are just a gear with good personality on this machine [5] . Mechanized, impersonal mechanism and the tension of personal rich personality will make employees dissatisfied. Moreover, the strong hierarchy hinders the employees from conveying their dissatisfaction; Day after day repetition and boring work are also a major source of accumulated dissatisfaction. Therefore, from this point of view, allowing employees to fully express their dissatisfaction and break through the traditional single division of labor and hierarchical system is not only the need to improve the enterprise, but also the need to reduce the damage of purposeful conflict.

The resolution of dissatisfaction can also be promoted by the construction of concepts such as corporate culture. The core cultural layer of corporate culture emphasizes "spiritual inspiration and emotional cohesion, requires themselves and others to respect and value people, and creates an equal environment for people[3]." establish a people-oriented rather than material centered management thought. Pay attention to people's shaping and value. Build a culture in which all members work together and work together. To construct the corporate culture of respecting individuals and sharing weal and woe between individuals and enterprises, we should not only adopt spiritual incentives, but also adopt substantive measures. For example, give employees the equity of the enterprise, so that the enterprise can truly become the home of employees, rather than making the enterprise superior to employees. The workers did not master the actual means of production. Just like the formal democracy in capitalist society, it seemed that the opinions of voters were displayed in the voting, but in essence, the bourgeoisie still monopolized the government power. In the enterprise, it was the orders of shareholders that overwhelmed the democratic decision-making of workers, and the democratic decision-making became an illusion.

The traditional bureaucracy emphasizes that superiors obey subordinates, and employees perform established tasks like parts. When a superior gives orders to a subordinate, the subordinate may be unwilling to do so. However, the internalization behavior of organization members is the most efficient way of behavior [4]. Internalization behavior refers to that actors accept the influence of actors and act according to their intentions out of their own internal beliefs and value standards and within the scope of their correct way of action. At the same time, with the monopoly of power, the orders issued by the superior may damage the rights and interests of employees and meet their own interests. This unreasonable compensation structure will make employees have a sense of deprivation, thus disintegrating the collective approval and unified norms on which the legitimate authority depends, weakening the mutual control among group members, transforming the authority into mandatory power, resulting in the confrontation between superiors and subordinates [5]. The leadership seeks private interests with monopoly power or ignores the interests of employees as a

whole. In the tension between employees' personal needs and leadership objectives, as a power monopolist, the stronger party, the leaders may strengthen the compulsion of management in order to achieve the above objectives, resulting in the escalation of conflict. Therefore, in democratic management, the needs of employees, material needs and their own values should be taken into account; Instead of letting the party with monopoly power force employees. The way to solve the power monopoly is to let employees participate in decision-making, jointly discuss plans and orders in democratic management.

#### **4. Case study**

Mondragon Corporacion Cooperativa was born in a small town called Mondragon in Spain whose prototype is a small cooperative founded by father Jos'e Marin arizmendi in 1956. Today, Mondragon Corporacion Cooperativa has become a large multinational enterprise group with a wide range of business and 141 subsidiaries. In 2018, Mondragon's revenue reached 12.215 billion euros and it had 81837 employees. It is one of the top ten enterprise groups in Spain and the largest cooperative group in Europe [6]. Mondragon is regarded as a model of contemporary cooperative practice, which has attracted the attention of a large number of researchers all over the world.

In terms of property right system, Mondragon Corporacion Cooperativa combines individual ownership with collective ownership, that is, it retains individual ownership and a part of indivisible common property. In 1959, Mondragon Corporation established Caja Laboral people's cooperative bank for company's capital operation. Its accounts are divided into individual capital account and collective capital account; each employee has his own personal capital account. The funds in the personal capital account are owned by the individual and used by the company. They can be withdrawn only when the employee retires or leaves the company, but the interest can be withdrawn at a higher interest rate than the bank every year; the collective capital account is indivisible and owned by the collective to ensure the operation of the company. After the company makes profits, no more than 70% of the income will be deposited into the individual capital account, and no less than 30% of the income will be deposited into the collective capital account; when the company makes a loss, the company and employees bear the loss in the same proportion. Each employee is required to pay about one year's salary as the membership fee when joining the club. This fund will be deposited into the personal capital account. Since the fund each employee pays are basically the same, the share of each employee is also basically the same [7]. This property right system both ensures the rights of employees and functioning of the company.

In the distribution system, they take distribution according to the amount of work as the basic principle, combined with distribution according to capital, which takes both efficiency and fairness into consideration. The income of employees consists of three parts: salary, interest from funds and dividend. In terms of salary, Mondragon Corporacion Corporativa has established a detailed salary grade system, which determines the grade of each employee according to the post, ability, the amount of work and other factors in a comprehensive way, and they evaluate it every six months; Within the company, there is strictly control of the gap between the maximum and minimum wage; Outside the company, the salary is basically consistent with the local level. The salary of low-income employees is higher than the local average level, and the salary of high-income employees is lower than the local average level. In the other two parts, the interest from funds is paid in cash; the dividend is deposited into the internal bank account, which cannot be withdrawn during the period of service but the interest of it can be withdrawn every year.

In terms of management system, full democratic management has been realized. The cooperative takes the general meeting as the highest authority. The general meeting is held at least once a year and follows the principle of one vote from one person. Its main duty is to make decisions on major matters, summarize, elect the board of directors, etc. The board of directors further elects the management committee as the standing body when the general meeting is not in session, and the chairman of the management committee is the legal representative of the cooperative. In addition,

members also elect a social council to be responsible for salary system, social security and other affairs, participate in management and provide suggestions to the board of directors and Management Committee; The Social Council is reelected 50% every two years, and reelection is not encouraged, so that every member has the opportunity to participate in management. Like other capitalist enterprises, Mondragon adopts a top-down vertical management mechanism, but due to the role of distribution system and democratic system, the interests of workers and managers are highly consistent, which can effectively improve the efficiency of vertical management; Besides, by incorporating all employees into the management process, Mondragon also achieves a horizontal control mechanism, so as to improve management and labor efficiency [8].

In terms of social function, Mondragon Corporacion Corporativa attaches great importance to social responsibility and is committed to establishing social security. One of Mondragon's original intentions is to solve the employment problem and create a large number of jobs. When the enterprise has difficulties in operation, Mondragon, on one hand, uses collective funds for assistance, on the other hand, transfers employees internally to avoid unemployment, which has played a social role in creating and stabilizing employment. Mondragon also provides employees with labor insurance, including Medicaid, pension, death allowance, family hardship allowance etc., which is more detailed and has lower costs than those stipulated by the government. Moreover, Mondragon regards education as an essential part. It has 22 education and training centers in total. In 1997, Mondragon University was founded which realized the combination of production, learning and research. In 2018, Mondragon Coporacion Corporativa invested 28 million euros in social affairs, while 11248 students are studying in its education center [9], reflecting a high sense of social responsibility and the contribution to social stability and development.

## 5. Conclusion

The success of Mondragon Corporacion Corporativa has proved that the practice of industrial democracy is feasible under the market economic system with vigorous vitality and participate in worldwide competition [10]. Some of Mondragon's theoretical principles and practical experience can be used for inspiration. For example, the principle of taking workers as the main body and capital in the secondary position, as well as its democratic management model and so on. Also, it is a very good example to show the benefit of keeping the interest of employers and employees consistent. The conflict of interest of employers and employees is an obstacle in group decision-making and the whole progress of democratic management. Mitigating this contradiction will facilitate the forming of harmonious environment with more free speech and insightful ideas.

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