



# Innovative Finance Inclusion

## Teaching Notes

### To fund or not to fund: that is the question ESG Implications of Financial Decisions

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## Synopsis

- Mondragon Corporation's (MCC) and its backbone Fagor Electrical Appliances (FED) constitute a prominent example of cooperative experience.
- After decades of unrelenting growth, FED became commercially present in more than 100 countries, with a significant portion of its manufacturing operations (and facilities) remaining local.
- FED grew to become the world's second-biggest industrial cooperative and the Corporation's largest cooperative, delivering excellent results that helped MCC cooperatives and providing an unrivalled supply of labour in the region.
- The 2008 financial crisis had a significant impact on the electrical appliances industry worldwide, but notably so in Spain (owing to the bust of Spain's real-estate bubble, which had been fuelled for over ten years). In 2006, the Spanish market accounted for more than 52% of FED's total sales.
- To combat the market's stagnation, FED launched an expansion plan, which MCC partially funded using its solidarity instruments and the cooperatives' and employees' efforts.
- Despite the ambitious plans and investments, FED's operations resulted in losses of \$25.7 million in 2011 and €89.9 million in 2012 (despite earning € 48.4 million via the profit-sharing instruments among the cooperatives).
- In early 2013, the auditor raised FED's negative working capital (€192 million in 2012), which MCC and the local government agreed to offer to keep FED afloat.
- In October 2013 another bailout was requested; what should MCC cooperatives' decision be this time?



## Target Audience

The case was developed for use in undergraduate and postgraduate management programs, as well as for scholars and professionals in the sector of sustainable finance.

## Case Study Objectives

1. To understand and reflect on the benefits and drawbacks and the implications and terms of financing (or continuing to finance) the activities of (cooperative) group's divisions.
2. To develop the ability to make (sustainable) financial decisions.
3. To reflect on the necessity to create and implement financial instruments or models that incorporate ESG (environmental, social, and governance) aspects.

## Recommended Lesson Structure

- Begin with an overview of Fagor Electrodomesticos and Mondragon Corporation's history, focusing on the (E)SG aspects and implications of companies and cooperatives. In addition to the written case, extra readings/material may be used to supplement this introduction.

- The reader (who will take the position of the cooperativist) will be guided through an in-depth evaluation of the benefits and downsides, impacts, and circumstances of funding (or continuing to finance) FED by the lesson (and the case).

- The downfall of Fagor Electrodomesticos will not be revealed to the audience, and it cannot be seen as the correct answer to the case. As is customary in sustainable finance, there might be a plethora of correct responses. The depth, rigour, and systematic thought that goes into the answer will determine its rightness.

- The World Economic Forum (2020) 's Sustainable Value Creation Metrics framework is suggested to systematize and guide the case reflection and discussion.



## Appendix

### 1.1 Appendix1: Additional readings/materials (for the lecturer)

<https://www.fagorprofessional.pl/en/news-and-events/-/detail/20127/kepa-bedialauneta-managing-director-onnera-group-fagor-industrial>

<https://youtu.be/O0FQPQw32Dg>

<https://www.alimarket.es/electro/noticia/268974/mondragon-rechaza-su-responsabilidad-en-la-crisis-de-fagor-electrodomesticos>

<https://www.tulankide.com/es/las-decisiones-de-las-cooperativas-fagor-electrodomesticos-y-edesa-se-adoptaron-en-sus-organos-de-gobierno>

<https://www.euskonews.eus/0677zbk/gaia67701es.html>

<https://www.cnmv.es/Portal/Consultas/IndiceEIR.aspx>

<https://www.reuters.com/article/spain-fagor-idUSL5N0IY3K020131113>

<https://www.ehu.eus/en/web/campus-magazine/-/human-resources-policies-influenced-the-failure-of-fagor-electrodomesticos>

### 1.2 Appendix2: Proposed framework to guide the reflection and discussion

World Economic Forum. (2020). Toward Common Metrics and Consistent Reporting of Sustainable Value Creation. Geneva: World Economic Forum.



## References

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- Ortega Sunsundegi, I., & Uriarte Zabala, L. (2015). Retos y dilemas del cooperativismo de Mondragón: Tras la crisis de Fagor Electrodomésticos. *Mondragon Unibertsitatea*. <https://dialnet.unirioja.es/servlet/extlib?codigo=767253>



World Economic Forum. (2020). Toward Common Metrics and Consistent Reporting of Sustainable Value Creation. Geneva: World Economic Forum.

Webpages:

<https://www.mondragon-corporation.com/en/>

[www.ica.coop/en/cooperatives/cooperative-identity](http://www.ica.coop/en/cooperatives/cooperative-identity)

<https://www.cnmv.es/Portal/Consultas/IndiceEIR.aspx>

