

**TESIS DOCTORAL**

**MONDRAGON MULTI-LOCALISATION STRATEGY:  
INNOVATING A HUMAN CENTRED GLOBALISATION**

AN EMPIRICAL CASE STUDY ON THE  
MONDRAGON CO-OPERATIVES PRODUCTION PLANTS  
IN EMERGING COUNTRIES

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To those 10.000 people who work at  
the Mondragon production plants in emerging countries

*“Possunt, qui posse videntur”* – Virgilius (70 BC – 19 BC)



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**ACRONYMS AND ABBREVIATIONS**

<b>APEC</b> Asia and Pacific Economic Cooperation	<b>ICC</b> International Chamber of Commerce
<b>BOP</b> Bottom of the Pyramid	<b>ICT</b> Information and Communications Technology
<b>BRIC</b> Group of Brazil, Russia, India and China	<b>IMF</b> International Monetary Fund
<b>BRICM</b> Group of Brazil, Russia, India, China and Mexico	<b>ILO</b> International Labour Organization
<b>CEO</b> Chief Executive Officer	<b>ISO</b> International Standards Organization
<b>CO-OP</b> Co-operative	<b>IT</b> Information Technology
<b>CSO</b> Civil Society Organization	<b>LDCs</b> Least Developed Countries
<b>CSR</b> Corporate Social Responsibility	<b>Lobal co-ops</b> Mondragon co-operatives with no production plants abroad at the end of 2006
<b>ECOSOC</b> United Nations Economic and Social Council	<b>MCC</b> Mondragon Co-operative Corporation (Mondragon Group)
<b>EFQM</b> European Framework Quality Management	<b>MDGs</b> Millennium Development Goals
<b>EPZ</b> Export Processing Zone	<b>MECI</b> Mondragon International Corporative International Framework
<b>ERM</b> European Restructuring Monitor	<b>MERCOSUR</b> Southern American Cone Common Market
<b>EU</b> European Union	<b>MNE</b> Multinational Enterprises
<b>FAO</b> Food and Agriculture Organization of the United Nations	<b>MNE Global co-ops</b> Mondragon co-operatives that started FDI before 1999
<b>FDI</b> Foreign Direct Investment	<b>NAFTA</b> North American Free Trade Agreement
<b>G8</b> Group of 8	<b>NGO</b> Non-governmental Organization
<b>GATS</b> General Agreement on Trade and Services	<b>NIE</b> Newly Industrializing Economy
<b>GATT</b> General Agreement on Tariffs and Trade	<b>OECD</b> Organization for Economic Cooperation and Development
<b>GDP</b> Gross Domestic Product	<b>PECI</b> Mondragon International Corporative International Plan
<b>Global co-ops</b> Mondragon co-operatives with at least one production plant abroad at the end of 2006	<b>PLC</b> Product Life Cycle
<b>GRI</b> Global Reporting Initiative	<b>R&amp;D</b> Research and Development
<b>HFDI</b> Horizontal Foreign Direct Investment	<b>SME</b> Small and Medium-sized Enterprise
<b>HR</b> Human Resources	<b>SW Global co-ops</b> Mondragon co-operatives that started FDI between 1999 and 2004
<b>ICA</b> International Co-operative Alliance	

**TQM** Total Quality Management

**UN** United Nations

**UNCTAD** United Nations Conference  
on Trade and Development

**UNDP** United Nations Development  
Programme

**UNGC** United Nations Global Compact

**UNIDO** United Nations Industrial  
Development Organization

**USA** United States of America

**USD** United States Dollar

**VFDI** Vertical Foreign Direct  
Investment

**VS.** Versus

**WCL** World Confederation of Labour

**WTO** World Trade Organization



## **PREAMBLE TO THE RESEARCH PROJECT**

### 0.1 INTRODUCTION

The origin of the research project “Mondragon Multi-localisation strategy: Innovating a human centred globalisation” was the aim of an analysis of the impact of globalisation management patterns in co-operatives and of the social impact in general social enterprises. The interest and support of Mondragon University in the academic field, and the financial assistance of the regional Basque government (Social Economy Secretary) and of the Mondragon Group in the Basque Country (Northern Spain, Europe), has been of paramount importance in the carrying out of the research. Hopefully the study will make a significant contribution from the point of view of an academic perspective to help the Mondragon co-operatives to meet the challenges of the global market. This project and subsequent PhD thesis has been coordinated by Dr. Iñazio Irizar (supervisor) and Dr. Dionisio Aranzadi (co-supervisor).

### 0.2 MOTIVATION

The main motivation for the research came from a personal and professional interest on enterprise’s social contribution. While an undergraduate at Deusto University Business School (La Comercial), I became interested in and motivated by the social commitment of enterprises. Due to this, I undertook undergraduate studies in psychology, which allowed me to encounter the human face of business management. Afterwards, interest in “social contribution” increased, especially in the context of the day-to-day realities faced by enterprises, while working during more than four years as a strategy business consultant at Kpmg Peat Marwick, as project manager at Nexus IT and Portugal country manager at the IconMedialab consultancy.

Witnessing such reality, as well as visiting certain Non Governmental Organisations (NGOs) and enterprises throughout Asia, in addition to a six-month period volunteering at Mother Teresa’s Mission in Calcutta (India), all this enlivened my personal and professional search.

From the empirical day-to-day practice of enterprises and co-operatives, globalisation breaks the national and local structure of industrial firms. Therefore, enterprises need to develop new business models, adapting their management criteria to assure business success, transforming their “managerial”, “legal”, “financial” and “technological” patterns. Such a new global framework enhances the economic capacity of organisations that operates globally; but, for those enterprises with a social goal, it also strengthens to a significant extent their capacity to reach far and to unknown emerging countries. That is the case of worker co-operatives and social enterprises.

However, the traditional local structure of worker co-operatives is not prepared to compete in a capitalistic global market, and profound structural changes need to take place for achieving a new global structure. This transformation, that assures business objectives and the survival of parent co-operatives, will not be the unique goal in the globalisation process for co-operatives. It will only be the first step to be able to define and implement a democratic multinational business model that achieves its socio-economic goals worldwide.

The acknowledgement of the Mondragon Group, the thoughts of its management, and the current challenges of its co-operatives working in global markets was crucial in motivating the main objectives of the research. As a result of the pace of globalisation, many things were taking place at the same time within the Mondragon co-operatives. Hence, the interest in analysing issues such as “where are we” and “where do we come from”, in order to face “where do we want to be or should be in the coming future” become paramount.

From the scientific point of view, the globalisation paradigm is forcing academia to understand its logic and impact, as well as obliging it to propose the proper approach to reduce the negative (impact) and reinforce the positive. Economy geography emerges, measuring the impact of an unprecedented international industrial migration process, and defending the importance of the social commitment of enterprises on their place-based roots for global society stability (Williamson, Imbroscio and Alperovitz 2002, Hudson 2001, Barba Navaretti 2003 and 2006).

Corporate Social Responsibility (CSR) and bottom-of-the-pyramid (BOP) initiatives advance the capacity of companies to contribute for enhancing socio-economic development and poverty reduction (Karnani 2006). Confident of the support of the enterprise, the twenty-first century has started with the United Nation millennium development goals.

While worker co-operatives, as democratic and socially-committed enterprises, could play an increased role in such a fair globalisation process, radical changes do need to take place. This has resulted in academic debate on how the traditional and local structure of co-operatives might adapt to a global interconnected structure, in which they face risks in such a process of hybridisation (Cote 2001, Spear 2001 or Chaves and Monzón 2001).

The Mondragon Group co-operative experience is well known and studied all over the world as a paradigmatic co-operative experience (Whyte and Whyte, Cheney, Ormaechea, Larrañaga, Macleod 1997); and the recent global dimension imperative of the globalization process causes a relevant impact on the Mondragon Group traditional structure (Clamp 2003, Errasti 2003, Irizar 2006, and Vanek 2007), it has been affirmed that the Mondragon group faces the most important challenge (Aranzadi 2006).

However, at the time of writing no academic research has been broadly conducted on the Mondragon Group including specifically: the Mondragon globalisation impact on employment in the local communities, the international strategy followed by global co-operatives, and the economic and social performances of the production plants in emerging countries abroad.

Therefore, in order to have a proper understanding of the Mondragon globalization process and to evaluate the current international multi-localisation strategy, a careful and serious empirical research based on the Mondragon global co-operatives historical archival quantitative data and on a broad fieldwork of the production plants in emerging countries is required.

Consequently, the current research intends for the first time to conduct an empirical case study on the Mondragon industrial co-operatives globalization process during the period 1996-2006.

### 0.3 OBJECTIVES

The main goal of the research is to offer input from the academic field on the Mondragon co-operatives in their “globalisation process”, thus identifying management best practices to foster new international social enterprises structures. The research has also the objective of presenting the case study of the Mondragon Group as a place-based corporation facing human centred globalisation.

In order to achieve these goals, the research follows these steps:

- Bibliographical review: globalisation and community stability, globalisation and co-operatives, co-operative holding corporations, de-localisation, place-based development, social enterprise, Corporate Social Responsibility (CSR), Bottom of the Pyramid (BOP), and the Mondragon Group.
- Theoretical analysis:
  - Multi-localisation vs. de-localisation and their impact on local and international communities
  - The globalisation of co-operatives
  - The Mondragon Group and globalisation.
- Field work: analysis of Mondragon production plants in China, India, Mexico, Brazil, East Central Europe and Turkey:
  - Analysis, preparation and conclusions of the historical employment creation of the Mondragon Group industrial co-operatives (1996-2006)
  - Personal interviews with co-operative employees abroad (115) and other international strategy managers and experts (61)
  - Visits and analysis of Mondragon production plants abroad (40)
- Case studies: Building of Mondragon production plants abroad case studies (6) on best practices in CSR management coherent with co-operative philosophy to inspire other co-operatives and socially responsible businesses in their globalisation process.
- Conclusions: Review of the Mondragon Group globalisation process and of its economic and social importance.

---

## PART ONE: THEORETICAL AND METHODOLOGICAL FRAMEWORK

### CHAPTER 1: BACKGROUND

“The economic revolution will be moral or will not be;  
the moral revolution will be economic or will not be”

(Rev. Arizmendiarrreta, 1999: 160)<sup>1</sup>

#### 1.1 CONTEXT OF RESEARCH

The term “globalisation” might be a new concept<sup>2</sup>, but the globalisation process is based on the natural evolution of old concepts such as “industrial revolution” or “international trade” (Irizar, 2006: 16). Based on the competitive advantage theory propounded by David Ricardo, a world economy continuous integration process takes place, incorporating constantly new countries in the globalisation race.

Globalisation has an impact in all sorts of factors, “economic globalisation constitutes integration of national economies into the international economy through trade, direct foreign investment, short-term capital flows, international flows of workers and humanity generally, and flows of technology” (Bhagwati 2007: 13). The technological revolution seems to be one of the most powerful engines of the globalisation process (Friedman, 1995: 341).

Consequently, globalisation may be defined as the growing economic interdependence between countries, motivated by the increasing volume and variety of goods and services in the international trade, the role of international capital transactions and the speeding diffusion of worldwide technology.

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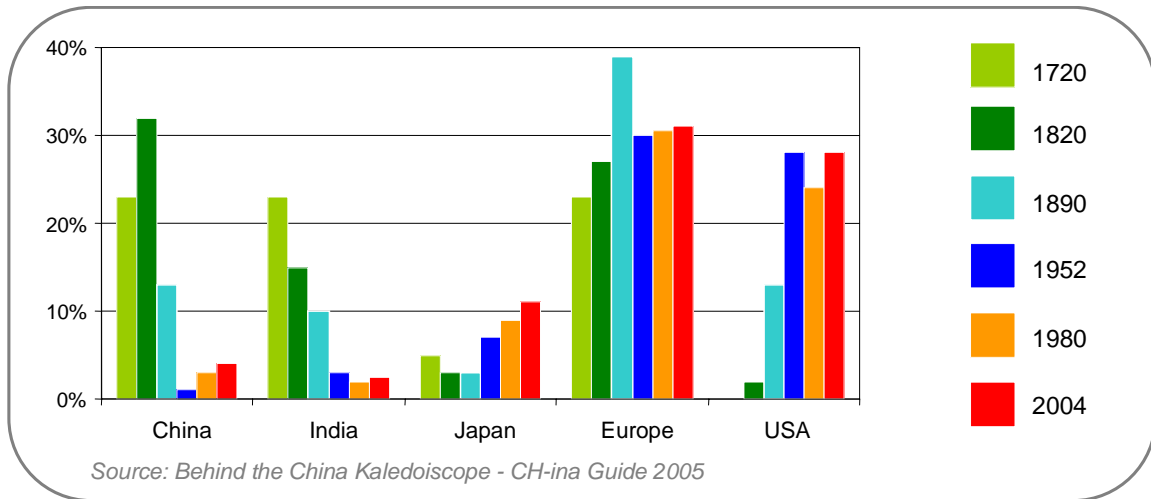
<sup>1</sup> The Rev. J.M. Arizmendiarrreta (Markina 1915-Mondragon 1976) was the promoter and spiritual leader of Mondragon co-operatives movement, today known as the Mondragon Group. There are several articles and books written by him, and also about him (J. AZURMENDI 1984 and F. MOLINA 2005). In 2004 his canonization process has been introduced.

<sup>2</sup> “The global concept appeared in the early 1970s and progressively invaded boardrooms and classrooms” (P. LASSERRE, 2003: 10).

The world has experienced two great waves of globalisation driven by free trade policies of major trading countries and by falling of transportation costs. The first wave ran from industrial revolution in the mid-nineteenth century until the outbreak of World War I, and the second since 1947. This second phase involved higher levels of international trade and lower levels of international migration (Flanagan 2006: 3).

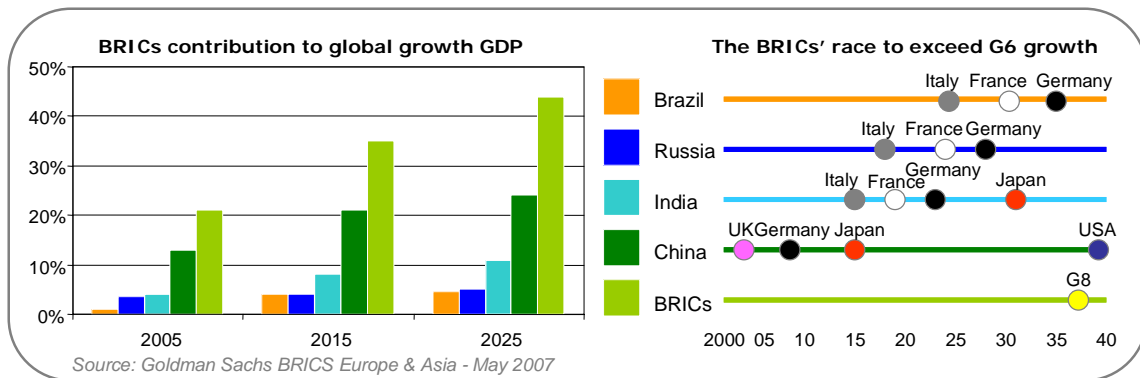
Globalisation breaks the national and local structures of the industrial firms. To remain competitive in global markets, companies look for new international placements through foreign direct investment (FDI) in order to reduce cost by investing in low labour cost countries (LDCs) based on an industrial activity vertical integration (VFDI), access to market shares in new emerging countries through horizontal integration (HFDI) or indeed a combination of both (Barba Navaretti et al, 2006: 4-5). Multinational enterprises (MNEs) become one of the most influential agents in this new global, boardless and interlinked economic world. “The economic realities in which economist such as Smith, Ricardo, and Keynes lived are distant worlds away from the one we inhabit at the beginning of the twenty-first century” (Ohmae, 2005: 53).

The outstanding socioeconomic development during 1970s and 1980s of the tiger economies has recently involved sleeping giants as China or India, where MNEs offshoring and outsourcing strategies take place. In the last 10 years China has become a gigantic workshop for the world, where an extensive variety of products are manufactured in an ever more competitive manner. The People’s Republic is taking the role that the United Kingdom did around 1830, which was then taken over by the United States in the early twentieth century. Interesting enough, both the former and the latter became the dominant world powers towards the end of the nineteenth and twentieth centuries, respectively (Mussy et al., 2005: VII).



**Figure 1.1:** Proportion of World GDP 1720-2004

According to a recent statement made by Samuelson in reference to Ricardo-Mill’s comparative advantage theory, a current analysis of the United States and China economies leads to think that sometimes a productivity gain in one country can benefit that country alone, while permanently hurting the other by reducing the gains from trade that are possible between the two countries. This creates a natural concern, as to where the limit of this definitive advantage will be, for the question is whether “one or more of these trailing bicycle riders would fully catch up with the USA bicycle and then maybe even forge ahead of it” (2004: 135-146).



**Figure 1.2:** BRICs’ GDP Growth forecast 2005-2025-2040

As a result of this worldwide economy rapid globalisation process, we assist to an unprecedented seeding of multinational production plants in emerging countries, with an industrial migration process moving from the North to the South and from the West to the East. In an international free trade framework, firms pursue lower cost and market

growth expectations in the so-called BRIC (Wilson and Purushothaman, 2003)<sup>3</sup> countries to succeed in the global markets (fig. 1.2).

Such a migration movement of manufacturing plants is the result of international localisation strategies. In this context “de-localisation” means that a firm closes a parent company industrial activity to open immediately a site operating in the same activity abroad (Irizar, 2006: 21), while “re-localisation” takes place when the activity closed does not come from the parent company. At the same time “multi-localisation” reflects an expansionist strategy in which the new factory opened abroad does not necessarily mean the closings of a previous one<sup>4</sup>.

Such industrial localisation movements have a important impact in the local communities: stability as a result of a globalisation capacity for destabilising local employment conditions (jobs, wages, collective bargaining and volatility), hampering national economic policy making, reducing democratic self-governance of communities and economic development and stability (Williamson, Imbroscio and Alperovitz, 2002: 25-70)<sup>5</sup>.

Academic studies do not generally agree on the impact caused by globalisation. In analysing the impact on emerging countries, there exists empirical evidence affirming that globalisation through FDI is a substantial part of successful development in poorer countries (Mandle, 1998: 54, Sachs 2005) improving their labour conditions (Flanagan 2006). Opposite findings conclude that there is no a clear link between export expansion in itself and economic growth, stating that integration is the result, not the cause of economic and social development (Rodrik, 1999: 33-35), and arguing that globalisation increases global inequality and destabilises communities in the developing world (Robin Hahnel, 1999: 77).

---

<sup>3</sup> This concept was presented in the “Dreaming With BRICs: The Path to 2050” Goldman Sachs report in 2003. This daringly predicted that Brazil, Russia, India and China would be giant economic forces in the coming century. The report presents those countries as the point of reference for economic growth in the following 10 to 20 years. Three years later the 6% average rate of GDP growth reflected in the report seems to be conservative, comparing to annual growth of 8% in India or 10% in China for the year 2006. In 2006 BRICM includes Mexico to the previous group of countries.

<sup>4</sup> Literature uses “de-localisation”, “delocation”, “relocation” or “dislocation”, with its French translation “délocalisation”, and the Spanish “deslocalización” (see for instance I. IRIZAR 2006, D. STORRIE and T. WARD 2007)

<sup>5</sup> In the chapter “Place for a Community, local democracy in a global era” Williamson et al. analyse in detail the major research and publications on the threat of globalisation to community and democracy.



While analysing the impact of globalisation on those countries with higher labour costs, historical evidence shows that global market competition results in the downsizing and shutdown of manufacturing firms (Robert Scott 2000 and Kletzer, 2000: 382). However, on the contrary, research also concludes that there is not empirical evidence of the negative impact on parent company employment as a result of FDI in developing countries. (Barba Navaretti, 2006: 19).

Globalisation is considered a powerful tool with an important impact on developed and on developing countries. It might be argued that it has a crucial and positive impact on well-being worldwide, reducing inequalities by pulling the bottom up, hence pulling the top down. However, it might also be argued that it has a harmful impact through increasing inequalities worldwide: while it exclusively benefits the richer by impoverishing the poorer in developed and developing countries (confronting the lucrative interests of owners and investors), pulls down the employee rights (Rodrik 1999). What has been called “the race to the bottom” caused the creation of the International Labour Organisation back in 1919 (Flanagan 2006: 3), almost hundred years ago, and according to ILO “a potential conflict of interest exists between workers of the global North and the global South when it comes to offshoring and outsourcing. Indeed, there is a need for active labour market strategies in the global North to avoid workers in the North bearing the cost of outsourcing” (ILO 2007).

Our research is focused on the first approach based on “the fair globalisation” statement: “Globalisation should benefit all countries and should raise the welfare of all people throughout the world. This implies that it should raise the rate of economic growth in poor countries and reduce world poverty, and that it should not increase inequalities or undermine socio-economic security within countries” (ILO, 2004: 32). This ILO statement has its own limitations. One is coherent with Heckscher and Ohlin thought: international free trade produces greater worldwide equality in wages and other working conditions, along with distinct patterns of winners and losers within each country (Flanagan 2006: 6).

### 1.1.1 The impact of globalisation on developed countries community

As far as the issue of competitiveness is concerned, several studies have shown that multinationals perform better than companies limited to one country in global and local markets<sup>6</sup>. However, as FDI impact on employment has not been so widely studied, the debate itself remains very ambiguous, depending on the methodology used and the countries analysed.

Some of the main descriptive studies carried out in the 1990s in the United States conclude that trade has been a net destroyer of domestic jobs, so that the 40% of manufacturing jobs has been lost in the United States between 1978 and 1990 (Scott 2000 or Sachs and Shatz 1994).

The European Restructuring Monitor (ERM) report 2007, developed by the European Foundation for the Improvement of Living and Working Conditions, states that during the period 2003-2006 there are 3,475 cases with more than 100 job losses within the EU (representing 2,445,793 job losses); 356 were the result of a delocalisation (representing 194,290 job losses) to countries outside the EU15, and 44 (representing 12,013 job losses) to EU15 countries (Storrie and Ward, 2007: 26-28). Only the 1.27% of the cases correspond to delocalisation outside the EU15 (representing the 0.49% of job losses). Of these European offshore cases, the percentage of employment shifting includes the following regions: 51.2% to New Member States (NMS), 36.3% to Asian countries excluding NMS, and 12.5% to other countries (while 50.7% include Asian countries and NMS together) (Storrie and Ward, 2007: 34).

A direct relationship between job displacement rates and import penetration has been found in the US during the period 1979-91 (Kletzer, 1998: 423-457). The analysis of historical data concludes evidently that global market competition results in downsizing and shutdowns of manufacturing firms in those countries with higher labour costs; and this has a significant socioeconomic impact.

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<sup>6</sup> See for instance, M. DOMS and B. JENSEN (1998) providing evidence on the United States, C. CRISCUOLO and R. MARTIN (2003) and S. GIRMA, et al. (2002) on the UK, D. CASTELLANI and A. ZANFEI (2003) on Italy and L. BELLMAN and R. JUNGNICHEL (2002) on Germany.

However, contrary to what might be thought from an employee point of view or trade union understanding, a single company FDI is not the cause for parent company employment downsizing or industrial activity closure. Recent studies conclude that even though parent companies employment declines, it would have declined even more if these firms had not invested abroad (Barba Navaretti and Castellani, 2003: 21).

It is only in the last decade when, as a result of more reliable datasets<sup>7</sup> and the use of more sophisticated regression approaches, appeared several studies analysing the direct impact of FDI on parent companies, on downsizing and on employment destruction (see Barba Navaretti and Castellani 2003 or Kiyota and Matsuura 2006).

Analysis carried out by Barba Navaretti measures the impact of FDI on employment growth, analysing firms in Italy and France during the period 1999-2002 and concluding that for both countries the parent company employment reduction would have been greater if those firms had not followed a multi-localisation strategy through FDI. Based on a propensity score matching a counterfactual, the hypothetical behaviour in the event that the company would not have invested abroad was propounded.

International multi-localisation can respond to vertical industrial integration (VFDI) or to horizontal industrial integration (HFDI) strategies. Even if there are differences in the previous approach, recently both strategies (VFDI and HFDI) tend to merge. Current FDI flows pursue a reduction of cost production (VFDI) and at the same time access to market (HFDI). That is the case with continental European FDI (Germany and Sweden) in two of the recent new European Union (EU) members: the Czech Republic, and Poland (Becker et al. 2005: 11 and Buch et al. 2004: 61).

Literature predominantly seeks to compare the performance of Multinational enterprises (MNE), local corporations and those local companies that assume FDI for the first time

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<sup>7</sup> The databases used in some of the studies have records since late 90s. This is the case of the *French Enquêtes filiales* from the Direction of Foreign Economic Relations (DREE) of the French Ministry of Economic and Finances, which has records of firms with more than 20 employees investing abroad for the first time between 1995 and 2000. The same can be seen from the *Italian Reprint directory*, presented by the Polytechnic of Milan and the Italian Institute for External Affairs in 1993 and 1998, or in the *Japanese Kigyō Katsudō Kihon Chōsa Houkokusho* prepared annually by the Research and Statistics Department, METI (1994–2002).

switching to MNEs (here after SW)<sup>8</sup>. It is widely accepted that MNEs have a better economic performance. Conclusions as to the MNEs performance on employment destruction differ; the theory more extensively accepted maintains that foreign company activity involves greater employment volatility (Kiyota and Matsuura, 2006), paying MNEs higher wages than host-country companies for a given skill of labour in both industrialized and developing countries (Flanagan 2006: 143).

What appears to be clear is that, due to the rapid globalisation process and freer international trade policies, developed countries with high labour costs face a challenging future, increasing the differences between businessmen and corporation investor's interests, and employees. Corporations' investors pursue in emerging countries a lucrative investment to reduce costs, and an access to emerging markets with higher growth rates. A single economic goal and a short-term vision justify partial downsizing and total shutting down of industrial production in developed and less cost efficient countries (Mandelbaum and Haber, 2005). On the other hand, employees in northern costly countries identify emerging economy de-localisation as a threat to their employment, to their labour rights, and to salaries and community stability. According to recent European surveys, "de-localisation" is the main worry of Europeans (Mandelbaum and Haber, 2005: 31).

It might be argued that, even if it has been a huge development on business management tools, some corporative ideas are still rooted in a "physical based culture" (*cultura cosificada*, cf. Garcia Echevarria & Del Val Nuez, 1996: 128)<sup>9</sup>, corroborating the Arie de Geus view that "companies die because their managers focus on economic activity of producing goods and services, and forget that their organisation's true nature is that of a community of people" (Arie de Geus, 1997: XVII). It could be stated about the company roots that "Over the last 60 years, nothing, it seems, has changed" (Handy, 2005: 74).

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<sup>8</sup> See for instance: J. MANDLE 1998, K. KIYOTA and T. MATRUURA 2006, G. BARBA NAVARETTI and A.J. VENABLES 2003.

<sup>9</sup> A study carried out by S. GARCÍA ECHEVARRÍA and M.T. DEL VAL NÚÑEZ compares Basque and German managers' leadership and corporative culture.

As a result of this new reality<sup>10</sup>, the economically-developed countries (those of Europe, the United States and Japan) and in particular the more costly in terms of labour, despite the significant economic prosperity experienced in recent decades, face a strong destabilisation of local communities by globalisation. The authorities have implemented policies (and continue to do so) that seek to enhance employment opportunities and to develop economic activity, that allows for a decent mid- to long-term standard of living.

Such policy-making involves the following: financial incentives for organisations wishing to move to the region (Peterson 1981); the seeking to get world leading producers in regions that submit highly-skilled workers following a niche market strategy of high-value-added (such as the German and Swiss innovation endeavours, tourism in Europe's capital cities, the financial markets in New York, London and Switzerland, software development in Silicon Valley, Seattle or Ireland) (Kanter 1995); entrepreneurial aid that can lead to increased and developed local businesses (Imbroscio 1997); clustering of local companies that allows them to assume a global dimension in order to compete in the international markets (Porter 1990). All these strategies, rather than those of the communitarian dimension, are focused on the individual dimension of the citizen by avoiding the fundamental role of the community in itself, involving their capacity as business owners, employees or consumers in the defence of local stability.

Economic geography emerges, reinforcing the importance of geo-economics and place-based socio-economic development (Hudson, 2001). It proposes place-based ownership models as a solid tool against globalisation threats to local employment stability, in that "ownership and control are held in a more collective or community-oriented way" with these enterprises tending "to anchor or root investment more securely in communities, providing a counterforce to globalisation" (Imbroscio, Williamson and Alperovitz, 2003: 32).

The ownership of enterprises is collective and / or centred on community-oriented institutions, and thus provides such organisations with roots in the context in which they exist, giving them a capacity to operate as a buffer against the hyper-capital mobility of

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<sup>10</sup> Even if there are countries, such as Switzerland, that renounced inland industrial production in the late 1980s, most have faced this threat recently; especially this is due to the weight of China on industrial production offshoring, and of India on services outsourcing.

economic globalisation. Such a community dimension counts on sparse implementation at the international level, as is the case among others<sup>11</sup> of the worker co-operatives in Quebec, Emilia-Romagna, and Mondragon (Cid, 2005)<sup>12</sup>.

### 1.1.2 The impact of globalisation on worker co-operative structures

The historical role played by worker co-operatives as a place-based ownership model, becomes apparent for the threat of globalisation to community stability.

Here probably lays the biggest difference between firms committed -or not- to the local community. An industrial capitalist firm, in order to remain competitive can face the challenge of globalisation with at least two options or strategies: multi-localisation, or de-localisation. A worker co-operative, as committed to its co-operative member community, has only one option: multi-localisation. What is more, this seems to be the solution required to avoid de-localisation, by defending the local community from the impact of the trigger threat of globalisation: unemployment.

Nevertheless, the globalisation process is also affecting community-based, democratic and social enterprise structures. In order to continue to be competitive and to remain in the market, many co-operatives are left with no other choice but to adapt to the demands of a global economy (Errasti et al., 2003: 556), with new global structures needed, that causes a “co-operative hybridisation process” or a “isomorphism to conventional business” (Spear 2001 and Cote 2001).

The process of the co-operative struggling to achieve a global structure has given place to the appearance of new co-operative realities of “Co-operative Holding Companies” (Cote 2001, Chaves and Monzon 2001, Bakaikoa et al. 2004), and to concepts such as the dual model “co-operative nucleus and capitalistic periphery” (*núcleo cooperativo y periferia capitalista*, cf. Larrañaga, 2005: 230) or “coopitalism” (Defourny, 1999: 28). A number of modifications to the traditional co-operative format are taking place in order to compete more effectively in global markets, “through improving the access to finance, facilitating the separation of economic and social dimensions of the enterprise,

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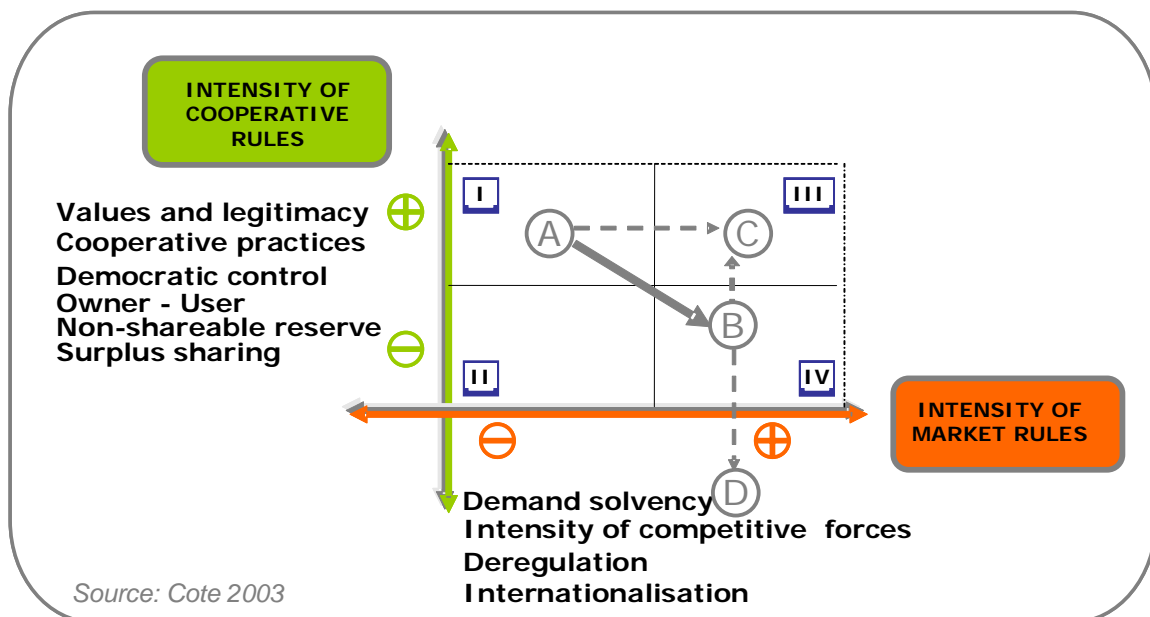
<sup>11</sup> Nova Scotia in Canada (G. MACLEOD, 1997), Rorhabacher in California (T. WILLIAMSON et al, 2002: 48-49) and those in Brazil (P. SINGER 2007).

<sup>12</sup> Cid presents a deep analysis, of the global co-operatives performance in the three regions.

and using corporate holding structures to achieve growth through joint ventures, mergers and acquisitions” (Spear, 2004: 113).

According to the Cote “Co-operative Holding Structures” study, in a hostile environment, for some major co-operatives, the nature and structure of co-operatives was not sufficiently adapted to survive and meet global economic competitiveness. “They prefer to transform themselves into share capital organisations” (Cote 2001: 385). And three types of structural changes take place: 1- From a “parish figure” to an “anonymous individualising figure”, 2- the difficulties of collective action due to the bigger size of co-operative memberships and 3- the interpenetration of activity fields of co-operatives and of many competitors.

Based on the intensity of application of market and co-operative rules, world reference co-operatives were qualified as follows:



**Figure 1.3:** Co-operative Profiles: Diversity of Contexts (Cote 2001)

Worker co-operatives face a historical crossroad. On one hand, globalisation presents central threats to the stability of local traditional communities and to the traditional structure degeneration process of co-operatives. On the other, it stimulates their social mission of wealth creation through employment growth.

Even if there exist a diverse reality of the nature and structure of co-operatives, in contemporary society co-operatives provide on the whole over 100 million jobs, with the co-operative movement “bringing together over 800 million people around the world” (Somavia, 2004: I). The United Nations estimated in 1994 that the livelihood of nearly three billion people, or half of the world's population, was made secure by co-operative enterprises. According to a recent Global 300 report, the largest 300 co-operatives worldwide have a GDP of \$978bn, similar to Canada. Therefore it can be said that those Global 300 co-operatives would be the 9<sup>th</sup> world economy (Cronan, 2006: 2).

### **1.1.3 The impact of globalisation on developing countries community**

The overall world economy GDP has grown during the twenty-first century by over 2% annually; if the economic growth of the so-called BRIC countries is considered, it reaches an average of 6%, headed by China with an 11.5% growth in 2006<sup>13</sup>. The analysis of such growth impact on people proves that the rich become wealthier, increasing significantly the gap between the richest and the poorest countries. (ILO, 2004: 36). The GDP per capita of the richest countries grew from \$11,417 in 1962 to \$32,339 in 2002, while the poorest countries grew from \$212 to \$267 respectively, measured in constant 1995 USD<sup>14</sup>.

Nevertheless, according to some recent world poverty studies, not every developing country behaved similarly during the period 1985-2000; for instance, 55 developing countries grew by at least 2% annually, while 23 suffered negative growth (ILO, 2004: p.36). At the end of 2004 in Malawi 84% of the population lived in rural areas, in India 72%, and in China 61%; however, in the United States rural population represented 20%. And while services represent 25% in the former, in the latter reach up to 75% (J. SACHS, 2005: 18). An inconceivable welfare disparity exists, with a significant ground to be covered on socio-economic development: from the rural through the industrial to a services economic activity.

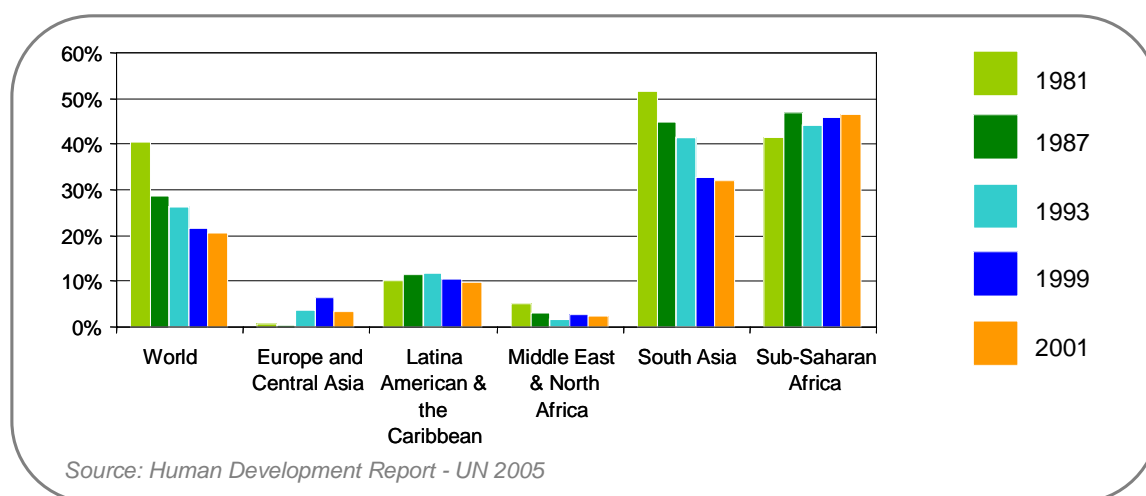
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<sup>13</sup> Information gathered from the Economist Intelligence Unit (The Economist, April 4th 2007).

<sup>14</sup> Based on a sample of 94 countries, with continuous time-series data during the period 1960-2002. This is available from World Bank *World Development Indicators 2003* (online version).



In spite of the efforts for eradicating poverty, 2,718 people lived with less than \$2 a day in 1990 and in 1998 this number had increased until 2,801 people; this at least according to World Bank reports (Stiglitz 2003: 5 n.2)



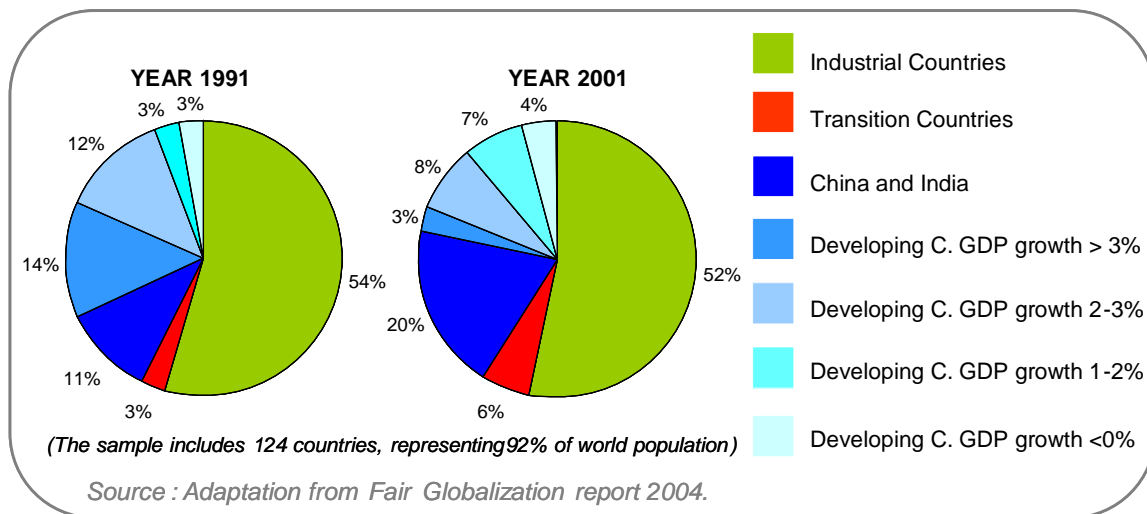
**Figure 1.4:** Percentage of population with income less than \$1 a day by region

There are many different reasons and factors that explain these figures, but due to the international freer trade policy lead by the WTO, the role and power of MNEs operating throughout the world is increasing. In 2001 some 850,000 foreign subsidiaries of about 65,000 MNEs accounted for 10% of world GDP, 5% more than in 1985. The foreign subsidiaries employment of MNEs grew from 24m to 54m employees between 1990 and 2001 (UNCTAD, 2002: p. XV). The MNEs pursue lower production costs and new market access with a potentially larger growth rate, implementing an international strategy through FDI.

Although this assumption of the positive impact of MNEs on improvement in developing countries has been questioned by numerous scholars<sup>15</sup> and the fact that globalisation is almost certain to lead to continued increases in the inequalities of global economies (Hahnel, 1999), those less developed countries (LDCs) that receive this FDI industrial localisation and represent half of the world population are experiencing economic progress. “Not only do they have a foothold on the development ladder, but they are also actually climbing it” (Sachs, 2005: 19). Based on evidence of increased human well-being due to economic growth in China, Indonesia, Pakistan, India and

<sup>15</sup> S. ANDERSON and J. CAVANAGH 2001:47, D. RODRIK 2001:54-62, or T. WILLIAMSON, D. IMBROSCIO and G. ALPEROVITZ 2001: 46-49.

Bangladesh, Mandle affirms that FDI must be held to be a substantial part of successful development in poorer countries (Mandle, 2001: 28).



**Figure 1.5:** FDI destination by country economic performance (GDP Growth)

Such an uneven pattern of growth supported by FDI is shaping a new global economic geography. The most striking change is the rapid economic growth in China over the last two decades, and the more gradual - yet significant - improvement of India; these two countries together account for more than one-third of the world's population (ILO, 2004: 35).

A deeper debate takes place confronting the interest of MNEs when represented by government international institutions (G8, IMF, or World Bank), and of NGOs concerning the non-economic developed and developing countries, and the anti-globalisation movement. "The protests at the Seattle meeting of the World Trade Organization were a shock. Since then the movement has grown stronger and the fury has spread" (Stiglitz, 2003: 3). New initiatives addressing the social dimension of globalisation arose recently at a broad level: the World Social Forum (Porto Alegre 2001, Mumbai 2004, etc), the UN millennium goals, the Global Compact, or the ILO world commission.

CSR emerges as a firms' code of ethics or conduct, one that is to be incorporated into companies while operating locally and internationally. Several initiatives and certification tools have emerged recently to encourage MNE social responsibility certification: the Global Reporting Initiative (GRI), the global multinational guidelines

OECD, the UN Global Compact, the ILO basic labour rights, ISO 26000, SA 8000 or the Global Sullivan Principles.

Specifically for Europe, it can be pointed out: the EFQM total quality certification specific toolbox for CSR (EFQM, 2003), and the European Green paper on CSR published in 2001 by the European Commission<sup>16</sup>.

Almost all of such initiatives have arisen since 1990, but CSR has been broadly studied by scholars throughout the twentieth century. There exists extensive bibliography on CSR and its conceptual approach, from Bowen (known as the CSR father) and his classic “Social Responsibilities of the Businessman” in 1953, to the more recent “Stakeholder Theory” (Freeman, 1984), as to the research and resultant debate on business ethics theory, civil society, corporate social performance (Swanson, 1995: 43-64)<sup>17</sup>, or corporate citizenship. There is a CSR conceptual evolution analysis: “CSR Evolution of a Definitional Construct” (Carroll, 1999). Similar to the social enterprise conceptual approach, there is a difference in CSR between Americans and Europeans (Kerlin, 2005).

However, our goal is not to present a CSR conceptual dissertation, but rather to understand and to take into account some of the most relevant studies in the field. As a matter of fact, the first conceptual approach was presented by Bowen (1953), which refers to business obligations in terms of the objectives and values of our society, followed by Davis (1960) and McGuire (1963:144), who evaluate corporation responsibilities beyond the direct economic or production interests of the firm.

The Chicago School also participated, with the Friedman statement on CSR in 1970 arguing that the corporation should not assume any volunteer social goal, suggesting “a *fundamentally subversive doctrine* in a free society: there is one and only social responsibility of business, to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud” (Friedman, 1970: 8).

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<sup>16</sup> For further analysis into the CSR tools and standards, see: Global Reporting Initiative (GRI), 2002; OECD, 2000; ISO/WD 26.000, 2006; or UN Global Compact, 2007.

<sup>17</sup> Swanson addresses a theoretical problem by reorienting the corporate social performance model.

In 1974 Harold Johnson presented a wider approach, one which includes new concepts in abundance, with four different definitions or levels of CSR, all of which combine and complement each other<sup>18</sup>. Also, we find Davis (1973: 312) definition and Carroll conceptual approach: “The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organisations at a given point in time” (Carroll, 1979: 500). He provides similarly enlightening analyses.

Recently, as a result of the multi-localisation expansion of MNEs, their international negative social performance and NGO reports, much research has been conducted in the field. The Harvard Business Review on CSR presents the following relevant articles: “What’s Business for?” (Handy 2005), “The Competitive advantage of Corporate Philanthropy” (Porter and Kramer, 2005), “The Virtue Matrix” (Martin 2005), or “The Fortune at the Bottom of the Pyramid” (Prahalad and Hammond 2005).

Most researchers assume that international firms take a crucial role in allowing developing countries to step forward on the ladder of economic prosperity (Sachs, 2005; Prahalad and Hammel, 2002; Mandle, 2001; Karnani, 2006). Prahalad’s approach presents developing countries BOP community as a potential market in which MNEs should focus as a lucrative business and as source of radical innovation, and at the same time contributing to eradicate poverty. Such an interpretation involves synergies between the needs of the poor and the needs of MNEs for growth: “It’s clear for us that prosperity can come to the poorest regions only through the direct and sustained involvement of multinational companies. And it’s equally clear that the multinationals can enhance their own prosperity in the process” (Prahalad and Hammond, 2002: 4). It is stated that there are enormous potential benefits for companies entering and investing in BOP markets: “Business can gain three important advantages by serving the poor—a new source of revenue growth, greater efficiency, and access to innovation” (Prahalad and Hammond, 2002: 10).

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<sup>18</sup> The four CSR definitions are the “Conventional wisdom”, anticipating the current Stakeholders approach, followed by a social responsibility understanding as a long-run profit maximisation. The third definition is based on “utility maximisation”, where he states that the enterprise seeks multiple goals rather than only maximum profits. According to this definition, he postulated the following definition: “A socially-responsible entrepreneur or manager is one who has a utility function of the second type, such that he is interested not only in his own well-being but also in that of the other members of the enterprise and that of his fellow citizens”.

The approach of “the Fortune at the Bottom of the Pyramid” examines the notion that poor communities in developing countries in the context of a massive amount (4bn people) of potential customers.

Karnani’s argument is clear in confronting the popular Prahalad approach for eradicating poverty: “creating opportunities of steady employment at reasonable wages is the best way to eradicate poverty” (Karnani, 2006: 28). “The best antidote to poverty is economic growth” (Karnani, 2006: 25). In later research (Karnani, 2007) extends the limitation of Mohammed Yumus “micro-entrepreneurs” approach to eradicate poverty asking not to romanticizes the idea of “the poor as entrepreneurs”.

We assume the Karnani statement to be one that argues that even initiatives focused on eradicating poverty by understanding BOP as “potential customers” or as “potential micro-entrepreneurs” have a positive impact; the best tool for eradicating poverty in developing countries is “creating wealth through employment at reasonable wages”. When comparing developing countries and regions (China, India and Africa), the biggest poverty reduction has been evident in those countries with higher employment growth<sup>19</sup>. The ILO agrees that “nothing is more fundamental to poverty reduction than employment” (ILO 2004: 21). And the United Nations Development Programme affirms that employment is a key link between economic growth and poverty reduction. Productive and remunerative employment can help ensure that poor people share in the benefits of economic growth (UNDP 2002).

The previous MNE strategies which understand the BOP population as potential “customers”, “micro-entrepreneurs” or “employees” to eradicate poverty are positively correlated. The key aspect for strengthening this positive correlation among customers and employees, it is argued, is the “employee reasonable wage” presented by Karnani<sup>20</sup>.

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<sup>19</sup> For the purpose of eradicating poverty, there are differences in the types of industries and employment of the FDI placement: During the last 20 years India performed at a lower level than China. The Indian strategy was based on combination of several micro-entrepreneurs, outsourcing high-value labour-intensive services, and heavy manufacturing industry, while that of the Chinese used larger sized MNEs and local enterprises, outsourcing low value labour-intensive manufacturing in light industry (A. KARNANI, 2007).

<sup>20</sup> Coherent with Henry Ford strategy doubling the market average salary in order to allow Ford employees to buy Ford cars (S. CRAINER, 2005).

The employee, as a result of the very tasks carried out, has the implicit right to seek remuneration for duties performed (Giner y Aranzadi, 1964: 145). Such a “reasonable” reimbursement is the resultant of the principle of reciprocal benefits: the value provided by the employee must be equal to that of the monetary settlement received. Compliance with this historic principle in the closed local economy is feasible; however, application becomes rather more complex in the open, global, productively integrated and interconnected global economy. In the scenario of the free mobility of capital and goods, but not of people, such an application becomes increasingly more necessary.

The multi-localisation of production sites, with its consequent integration, brings challenges to the calculation of the objective value brought by each worker.

- Application is relatively straightforward in the case of the organisation with a production site that trades in the same country. The value of the tasks carried out by the worker can be calculated, taking into account the monetary value of the final product in relationship to the worker’s activity.
- In the case of a multi-localised organisation, partly-made products come from various countries and from diverse social contexts. The final products are sold to end users or to universal wholesalers for distribution in the global market. This takes place in an environment exposed to fluctuations in exchange rates and in financial markets. To calculate the value added by each person to the final product as result of an international production chain is almost unattainable.

In the context of the global market, multinational production chains and multi-localised organisations take on a greater importance when considering the “principle of the obligatory family living wage” (Giner and Aranzadi, 1964: p.146); this is to be applied as a guide to define the minimum wage to be assured for each country and social reality.

According to the Catholic doctrine a just wage involves remuneration that allows the family to attain an acceptable standard of living in material, social, cultural and spiritual terms, involving access to a job and productivity by all, as well as to conditions within an organisation and common well-being; the simple remuneration agreement made between worker and employer is not sufficient for qualifying what is an fair remuneration, given that it must not be in any way whatsoever deficient in providing a

means of support to the worker. Natural justice, it might be argued, both precedes and is higher than freedom of contract<sup>21</sup>.

Hence, taking all of this into account, we assume that Karnani's theory on "employment creation at fair wages" serves as a valid guide to approaching the international role of global corporations in a fair globalisation development.

#### 1.1.4 The Mondragon Group faces an international crossroad

The co-operative experience, started by five young engineers headed by F. Arizmendiarieta in 1956 with Ulgor<sup>22</sup>, has become a world reference in democracy at workplace (Vanek 2007) and in the world of enterprise (Malone 2004). At the end of 2006 the Mondragon Group employed 82,830 people; in its 12 industrial divisions<sup>23</sup> it employs 42,444 people, with 19,079 co-operative members and 14,216 employees working abroad at the 65 production sites of 25 multinational co-operative companies (global co-ops)<sup>24</sup> and representing international sales of 56.7% of total<sup>25</sup>. With a total turnover of €13,390m in 2006, the Mondragon Group is the seventh-largest corporation in Spain, the leader of the European ranking in "employee share ownership" companies<sup>26</sup> and if listed would represent the 408<sup>th</sup> world biggest corporation of the Fortune Global 500 ranking.

In 1989 the Mondragon Group, committed to the Basque Country regional community<sup>27</sup>, faced its first international production adventure. This implied foreign investment on a multi-localisation strategy, creating subsidiaries with FDI on private companies (Cote, 2001: 385-402), and at the same time creating new greenfield affiliate

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<sup>21</sup> PONTIFICAL COUNCIL FOR JUSTICE AND PEACE, 2004, *Compendium of the Social Doctrine of the Church*, n. 176, 249, 250 and 302.

<sup>22</sup> Ulgor was the first co-operative of the Mondragon Group.

<sup>23</sup> For further details see section 3.3.2

<sup>24</sup> According to the methodology defined (See section 2.4.1), we name "global co-ops" the co-operatives with at least one production plant abroad, and "local co-ops" the co-operatives without any production plant abroad.

<sup>25</sup> Based on MCC 2006 annual report, and on co-operatives' annual reports.

<sup>26</sup> From the database "Fomento 2007", "European ranking of employee share ownership", and "Fortune Global 500 2007".

<sup>27</sup> See in section 2.2 the Mondragon Group mission statement approved at the VII Congress on May 1999.

firms abroad and acquiring partially (joint ventures) or totally (fully-owned) firms overseas (Clamp, 2003: 29).

The traditional working co-operative structure of Mondragon is mutating because “today, Mondragon co-operative model, as with a large number of co-operatives throughout the world, is at a crossroads, on one hand having to face the great challenges of a global economy and, on the other hand, continuing to be faithful to the founding values of the co-operative experience” (Errasti, 2002: 8). Literature identifies three forms of co-operative degeneration processes (Spear, 2004: 103): 1- A *constitutional degeneration* where membership becomes restricted and employees are taken on to secure a greater proportion of the surplus to members; 2- An *organisational degeneration* where the participatory structure of the co-operative becomes dominated by an elite; 3- A *global degeneration* where the goals of the co-operative change so that it becomes no different from capitalist business (Cornforth et al., 1988). The Mondragon globalisation process may receive an impact from all the previous degeneration forms.

Although there exist important impacts on the co-operative structure, the current internationalisation department director of the Mondragon Group states: “we are doing what we have to; the worst service we can do to society will be to disappear”<sup>28</sup>. Mondragon globalisation strategy is justified by the *primum vivere, deinde philosophare* (live first, philosophise later) principle; but which could be the evolution of going beyond the traditional co-operative frameworks in a medium and in a long-term period?

According to Ormaechea<sup>29</sup>, “fifty years have passed and we still have good health. But what we can establish is that our group is day-by-day less co-operative. It might be hypothesised that in the sort of corporation operating in 2055, the existing co-operativism and the people-centred corporation will be recognised as an honourable memory (*vestigio honorable*) of the past” (Ormaechea, 2006: 111).

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<sup>28</sup> J. HERRASTI 2005, Mondragon International Congress on Co-operativism (29th and 30th June 2005) in Mondragon Unibertsitatea School of Management.

<sup>29</sup> J.M. Ormaechea is one of the five co-founders of ULGOR, the first co-operative of the current Mondragon Group created in 1956. He has been a referent and a leader of what is today Mondragon Group, being the first president of Mondragon Co-operative Corporation back in 1993. He has also written several books on Mondragon, and has given many talks and conferences on this topic.



The Mondragon Group current globalisation process has been described as a “diverge from their traditional co-operative approach” and a “mutation” of its model (Errasti, 2002: 2-8), “becoming a traditional capitalist employer operating in low-wage countries” (Huet, 2000: 284) with a capitalist expansionist growth; this has been considered illogic for the worker-owned business finite-growth-ethic, and “sacrificing the long-valued buffer zone between them and the turbulence of the international market” (Cheney, 1999: 79).

Concurrently, some authors maintain close observations on the Mondragon co-operative experience evolution, with hopes based on the evolution of current “infants” production plants abroad “through adolescence to maturity” following the spirit of the parent co-operative spirit (Vanek, 2007: 304); this allows for the possibility of becoming a new “democratic multinational enterprise” (Errasti, 2003: 423). Macleod has coined the expression “the business dilemma versus the social imperative”, and based on Eroski and Irizar examples states that Mondragon co-operatives are using non co-operative legal structures to survive and to strengthen their social goal; he speaks about the Mondragon Group as “the closest model of an authentic social enterprise that we have in the world today” (Macleod, 2006: 33).

Since 1999 the Mondragon Group has created in its local environment 20,531 new jobs, and at the same time 12,298 new jobs abroad; of these 8,524 are in developing countries (MCC, 2006).

Is this new reality of the Mondragon Group a step forward in the worker co-operative international movement that enables to face globalisation, not only by maintaining jobs’ communitarian wealth at Mondragon traditional environment, but also creating communitarian wealth through employment growth abroad? Does a broad analysis about Mondragon globalisation process sustain that the success of its multi-localisation strategy strengthens its social goal while facing “the business dilemma versus a social imperative”? (Macleod, 2006). Is this an ongoing process, one that follows Vanek’s thesis on natural evolution of Mondragon subsidiaries from infancy, through adolescence to maturity? (Vanek, 2007).

Or does it confirm Webb and Webb *thesis on co-operative degeneration*, which argues that in a capitalist economy long-term economic success is not compatible with the maintenance of co-operative and democratic principles? (1921: 462-468)<sup>30</sup>.

These are some of the questions that the Mondragon Group faces in what can be probably considered the most important challenge in its 50-year history<sup>31</sup>. According to Cancelo<sup>32</sup>, “the world where co-operatives operate is demanding outstanding efforts, and the co-operative has to be courageous enough to carry these out; the main reason for several unsuccessful projects is the fact that no one was brave enough to dream about them” (Cancelo, 2006: 143). The Mondragon Group needs to face this challenge: “The principal challenge of the MCC co-operatives, arising from those exigencies which go beyond traditional co-operative frameworks, lies in coherently linking internationalisation activities with values of a co-operative nature, both through traditional co-operative ways, such as co-operative cooperation, and by other means which can facilitate the development of industrial democracy” (Errasti et al., 2004: 20); at the same time it has to assume not only free market principles in the global system but also democratic control, and as its basic purpose “the needs of the general society and the world at large” (Macleod, 2006:33).

While analysing how this process is taking place and what are the current results, we found specific questions to be answered:

- Do Mondragon co-operatives, through FDI multi-localisation, defend better the interests of parent co-operatives on local community employment?
- What is the FDI impact on member vs. non-member evolution in parent co-operatives, and internationally?
- Is the Mondragon Group international strategy mostly a HFDI, being competitiveness through international sales growth the main objective of production plants abroad?
- Is there a social objective in the Mondragon Group international projects?

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<sup>30</sup> This statement (S. WEBB AND B. WEBB, 1921: 462-468) has a broader debate in J.K. GIBSON-GRAHAM 2006: 111-114, C. COMFORTH et al. 1988 and A.M. ERRASTI 2003.

<sup>31</sup> D. Aranzadi in a speech at the Mondragon University Research meeting on 13th January 2007.

<sup>32</sup> A. Cancelo is one of the co-founders of Eroski, the main retailing distribution co-operative of Mondragon Group which at the end of 2006 had 33.000 employees. He has been Eroski General Manager since 1969 until 1998 when he assumed MCC General Council Presidency until 2004.

- What are the main limitations and incentives to the international expansion of co-operatives principles?
- Which are those best practices<sup>33</sup> in CSR management performed at the subsidiaries coherent with co-operative philosophy? Are they to be practiced only in specific countries, or is it possible to assume co-operative principles abroad for every country?
- Is there any subsidiary best practice which assumes every co-operative principle abroad, or until now best practices include co-operative principles partially?

Neither in previous research nor in the Mondragon Group strategic reports answers could be found to these questions. And the comments about the happenings always have been personal opinions of people placed in the Mondragon local environment: universities, parent co-operatives, or the Mondragon Group Headquarters.

The current research focuses on providing answers to the previous questions, based on the Mondragon Group 1996-2006 activity and on empirical analysis of the production plants abroad<sup>34</sup>.

## 1.2 RESEARCH HYPOTHESIS

Complying with the Goode and Hatt (1952: 56-57) statement, the research hypothesis could be defined in the following terms: **“The strategy of international production multi-localisation of the Mondragon industrial co-operatives has defended the stability of the local community by creating co-operative and non-co-operative employment, alongside with a concurrent improvement in competitiveness; furthermore, by means of new job creation it has also enabled wealth growth in emerging countries, providing also certain best practices in CSR management coherent with co-operative philosophy”**<sup>35</sup>.

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<sup>33</sup> Although a “best practice” might describe a technique, method, process, activity, incentive or reward that is more effective at delivering a particular outcome than any other technique, method, process, etc., in this research, and coherent with current business management standards, a “best practice” is considered and used to describe the process of developing and following a standard and efficient way of doing things that multiple organizations can use for optimizing management.

<sup>34</sup> The answers will be found in each research phase (Chapter 4, 5, 6 and 7) according to the methodology defined in chapter 2. A summary of them will be presented in chapter 8 with the general conclusions.

<sup>35</sup> In order to deal with this main hypothesis, and based on the research methodology, additional secondary hypotheses will be defined (see 2.7.2).



## CHAPTER 2:        METHODOLOGY

### Introduction

This is the second chapter on the theoretical framework of the research project. Once the theoretical state of the matter has been reviewed and the research project hypothesis defined, in this chapter it will be presented the research methodology as a whole, including a specific review of the three phases of the inquiry. Besides, additional information will be added in each phase in order to facilitate the due analysis.

### 2.1 RESEARCH TYPES

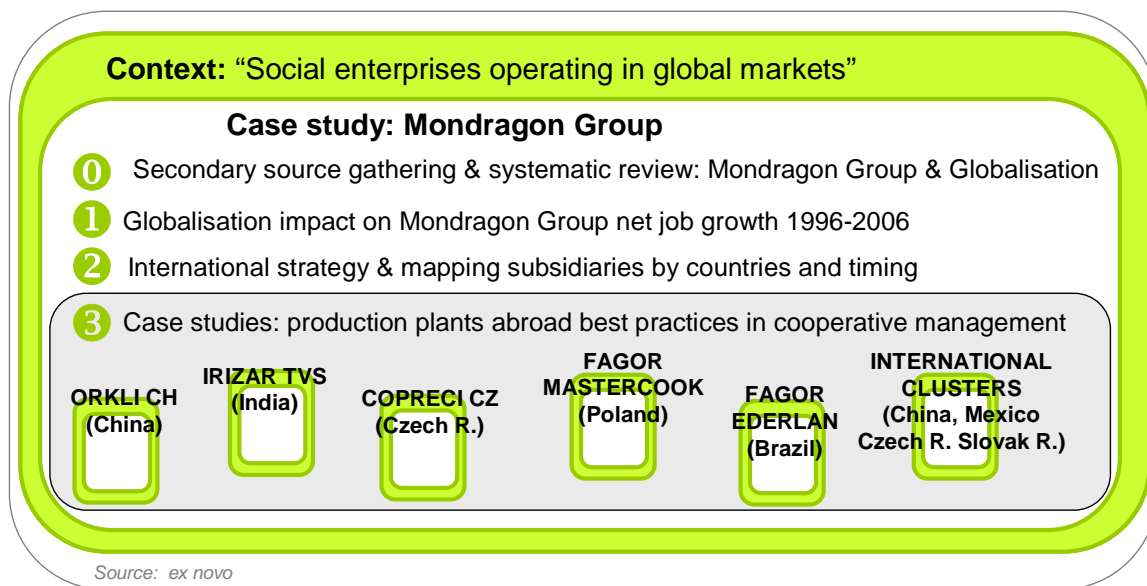
In accordance with international science qualifications, the current project can be defined as oriented research, in which the main goal is to bring knowledge to the field, in order to identify problems that co-operatives are facing in global markets, and consequently to present the Mondragon Group globalisation process with an analysis of its best practices. Research is mainly descriptive with two types of analysis according to the difference phases - quantitative and qualitative - and carried out in line with this project, that could be classified as “social science empirical analysis”.

### 2.2 OVERVIEW AND RESEARCH QUESTIONS

For establishing a solid and reliable approach to methodology, the main line followed is that of Robert Yin and his understanding of case study research, one in which “a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 2003: 13).

The project is focused on the study of Mondragon co-operatives functioning as a social enterprise and with reference to the internationalisation process as acting in global markets (fig 2.1). The Yin methodological approach is followed throughout the entire

case study, but other techniques are also applied at certain points of specific analysis of the research.



**Figure 2.1:** Research project methodological approach: The Mondragon Group case study

The main goal of this research is to study deeply and from different viewpoints, and according to dissimilar sources of information, which is the impact of the Mondragon Group international multi-localisation strategy and how Mondragon global co-ops are heading into the Mondragon Group globalisation process.

Research assumes the following characteristics:

- Study of the international activity of Mondragon co-operatives in their natural environment, from the point of view of the production plants abroad<sup>36</sup> as a “revelatory case” that combines and crosses different sources of information, with the aim of understanding what is taking place in the co-operatives and in the daily activity of their production plants abroad. Even though we find previous analytical studies on Mondragon Group globalisation, no one had the opportunity to investigate broadly the reality of the Mondragon Group production plants overseas.<sup>37</sup> According to Yin, “a revelatory case exists when

<sup>36</sup> The terms production plant, subsidiary, branch and affiliated company are used indistinctly in order to name those overseas productive companies owned totally or partially by Mondragon co-operatives.

<sup>37</sup> Only Professor Vanek and Professor Errasti had the opportunity to analyse Mondragon Group production plants abroad by visiting three subsidiaries in East Central Europe (See J. VANEK 2007).

an investigator has an opportunity to observe and analyse a phenomenon previously inaccessible to scientist investigation” (Yin, 2003: 42).

- Insight into the Mondragon Group as a “co-operative experience”, one which is a permanently mutating social enterprise initiative based on co-operative principles and not a theoretical enterprise structure, fruit of *co-operativism* as an ideology. According to the Mondragon Group current mission statement approved at the VII congress in 1999, the Mondragon Group is “a socio-economic experience with an entrepreneurial character with deep cultural roots in the Basque Country, created by and for persons, inspired by the co-operatives’ basic principles, committed to the environment, competitiveness and customer satisfaction, in order to generate wealth in the society through business development and employment creation” (MCC, 2007a: 4)<sup>38</sup>.
- A respectful approach to Mondragon co-operatives democratic decisions of members, who always through democratic decisions have made possible a 50-year co-operative network.

We have to state that any negative aspect (or negative evaluation about the co-operative activity) highlighted, is the result of an aim to provide useful comments on co-operative activity. This is of particular importance, given that the very goal of the project is to provide constructive criticism on the way that co-operatives are heading into their internationalisation process.

With these items as point of departure for the research, an “objective and rational” process will be used in order to understand the Mondragon co-operatives foreign market strategy and the day-to-day management practices, balancing parent co-operative and subsidiary interest with their social and economic objectives.

Case study methodology has been broadly criticised because of its insufficient precision, objectivity or rigor. Our goal will be to avoid the known weaknesses in carrying out case studies, by following Yin’s advice that case studies should be conducted with this presupposition: “on the understanding that your methods will be

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<sup>38</sup> “Mondragón Corporación Cooperativa (MCC) es una realidad socioeconómica de carácter empresarial con hondas raíces culturales en el País Vasco, creada por y para las personas, inspirada en los Principios Básicos de nuestra Experiencia Cooperativa, comprometida con el entorno, la mejora competitiva y la satisfacción del cliente, para generar riqueza en la sociedad mediante el desarrollo empresarial y la creación de empleo”.

challenged from rational (and irrational) perspectives and the insights resulting from your case studies may be underappreciated” (Yin, 2003: XIII).

Our methodology considers the following units or aspects for carrying out a solid and coherent “logical rational process”:

- a) Research questions - What do we want to address?
- b) Information units - What information should we analyse?
- c) Techniques & methodology strategies - Which methodological strategy should be used to answer each research question?
- d) Testing protocol - How do we test or explore the internal validity and reliability of the analysis?
- e) Build theory - How should we build a theory based on the results and conclusions?

In the following this methodological process will be clarified.

But the first task is to conduct a broad, deep and systematic analysis and review of the existing secondary sources on the topic of our study: “the Mondragon Group and Globalisation”. This theoretical study should include and amalgamate several sources of information in order to present clearly the existing information about this precise topic. Therefore, the analytical review is considered as Phase 0 of the research methodology, that will serve to validate the interest and idoneity of the research questions. This study has to be carried out in advance to the final definition of the research questions.

### **2.2.1 Research questions**

#### ***a) What do we want to address?***

The thesis is driven by the following four questions, grouped in four main methodological categories:



### 2.2.1.1 Which is the multi-localisation impact on global co-operatives employment creation at parent co-operative level?

Our first goal is to analyse the multi-localisation impact on employment growth, comparing the Mondragon Group global co-ops net-job growth (at parent co-operatives, in the local environment, and abroad) with that at the Mondragon Group local co-ops<sup>39</sup> during the period 1999-2006. The type of employment, examining *members vs. non-member* local jobs is included in the analysis. FDI direct impact is also analysed based on what will be the hypothetical employment growth of global co-ops in the case of not assuming FDI; for this purpose, the *propensity score matching* analysis has been performed.

### 2.2.1.2 What are the international strategies and what is the performance of the Mondragon Group global co-operatives?

Our second goal is “to analyse the Mondragon Group global co-ops and find out what are their international strategies, their performance on time basis (previous to 1999 and after 1999) and on place basis (region and countries), analysing the economic and social dimension of their strategy”.

In order to address this question, we combine co-operative activity archival analysis (the Mondragon Group Headquarters and co-operatives’ annual reports) with personal open interviews<sup>40</sup> with employees involved in the production plants abroad.

For the interview questionnaire see appendix I and for a detail description of the interviews conducted and factories visited see appendix II.

### 2.2.1.3 What initiatives may extend the Mondragon Group co-operative principles in their production plants abroad?

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<sup>39</sup> According to the methodology defined (See section 2.4.1), we name “local co-ops” the co-operatives without any production plant abroad.

<sup>40</sup> All the literal quotations from individual persons reported in this research correspond to the answers given during the personal interviews.

Our third goal is “to find out what are the main limitations and initiatives that should be enacted to extend the Mondragon Group co-operative principles in their subsidiaries abroad”. For addressing this question personal interviews have been conducted with a coding protocol<sup>41</sup>; and the data of the Mondragon Group directors have been merged, in order to present global conclusions.

#### 2.2.1.4 What are the best practices for the socio-economic dimensions of management in the Mondragon production plants abroad?

Our fourth goal is “to show profoundly the management best practices of the co-operatives production plants abroad”. As a descriptive analysis addresses a “how” question, the sources of evidence shall be studied in a broader way than previously done; and therefore, a “multiple case study” technique will be adopted. Once the previous questions have been tackled, six best practices<sup>42</sup> will be thoroughly researched, using a common “case study template”. For every case study we analyse a range of social and economic aspects, and indicators based on personal interviews as well as archival company information and previous academic studies besides direct observation.

### 2.2.2 Information units

#### *b) What information should we analyse?*

Not only the main questions have to be defined, but also the main units of information have to be analysed. Each unit of information is directly related to the question. In this case, the main unit of analysis is “each co-operative as a corporation”. This fact does not explore the different levels of corporations, but tries to examine them in the following sequence:

- The Mondragon Group as a co-operatives group with twelve different industrial divisions that hold 120 parent co-operatives in Spain.
- The Mondragon parent co-operatives as individual corporations that holds 65 production plants abroad.
- The co-operative’ production plants abroad, as individual business activity.

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<sup>41</sup> This protocol can be found at the end in the appendix I.

<sup>42</sup> For further detail see section 2.6.1, 2.6.2 and 2.6.3.6.

In the track of the research questions and the phases of our study, the specific units of analysis will be explained later on this chapter.

### 2.2.3 Techniques, and methodology strategies

#### c) Which methodological strategy should be used to answer each research question?

In order to define the research strategies to be used, we may have to compare such questions in the light of different techniques and according to the kind of research we are making. Also, it should be taken into account the role and control enacted by the researcher, as well as the timing of the events or of the realities to be analysed. We follow the previously mentioned Yin's approach, and the Cosmos matrix. The following chart guides us in selecting the methodology strategies to be used.

<b>Methodology Strategy</b>	⇒ Form of research question	⇒ Requires control of behavioural events?	⇒ Focuses on contemporary events
Experiment	<b>how, why?</b>	YES	YES
Survey	<b>who, what, where, how many, how much?</b>	NO	YES
Archival analysis	<b>who, what, where, how many, how much?</b>	NO	YES / NO
Historic	<b>how, why?</b>	NO	NO
Case study	<b>how, why?</b>	NO	YES

Source: COSMOS Corporation – YIN R., 2003

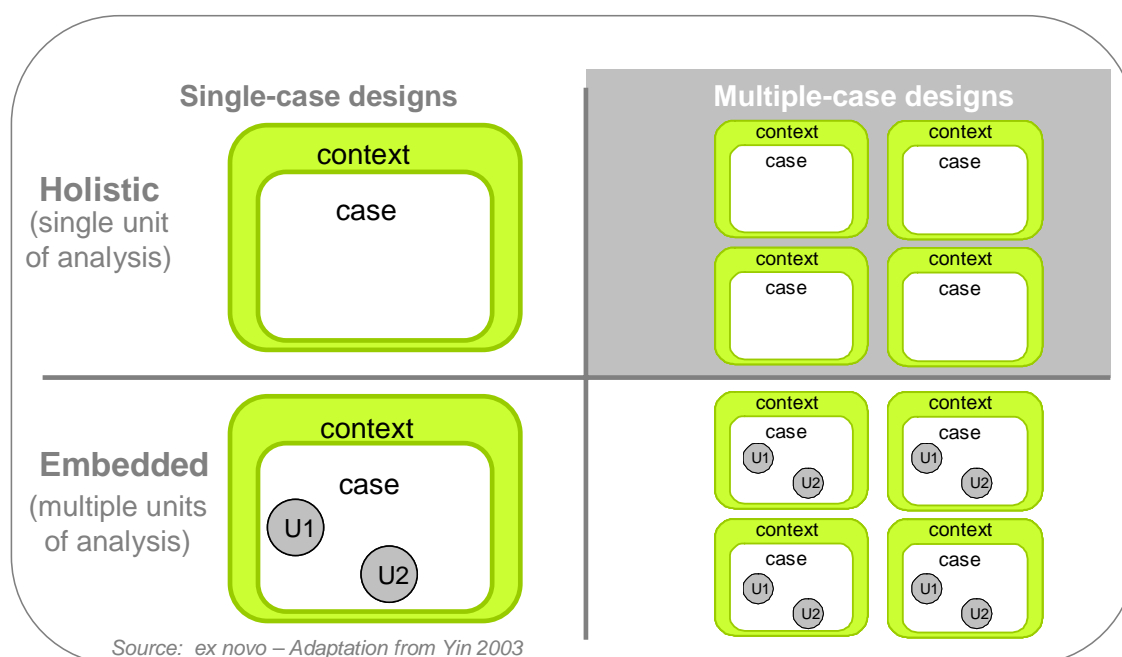
**Figure 2.2:** Research techniques according to the methodological strategy

Our research project uses three different techniques:

- 1) **Archival analysis:** Several secondary sources of information have been included in the topic for the systematic review of phase 0.

The Mondragon Group and co-operatives' annual reports on employment data analysis have been considered for phase I as regards the years 1996-2006; and for phase II and phase III as regards the analysis of the co-operative international activity.

- 2) **Survey:** One-hundred-and-fifteen personal interviews have taken place with employees of Mondragon co-operative production plants abroad (China, India, Mexico, Brazil, Eastern Europe, and Turkey), and 56 interviews with each country experts and with general managers of companies outside the Mondragon Group. The main purpose of this phase II is to describe the international strategies of Mondragon global co-ops, and their production plants' activity abroad. Several conclusions will emerge for global co-ops' international performance, for barriers and for incentives as regards the international development of the co-operative principle, and for the success factors to be enacted abroad. While examining the reasons for international success, a wide range of criteria are used or pointed out (Laserre 2007, Bartlett & Ghoshal 1989 and 2003, Hill 1998, etc). Exactly the same happens with reference to co-operative international activity (Cheney 1999, Cote 2001, Errasti 2003 and 2004, Spear 2003, Borzaga 2004), and no less when considering the importance of barriers or incentives for the extension of co-operatives principles abroad. That is the reason why a guided but open interview survey has been used, and was intended mainly to weight the importance of these factors for Mondragon co-operatives managers abroad. The individual results of the survey will merge and they will be globally analysed.
- 3) **Multiple case study (holistic):** Our third and last technique of data collection is a holistic multiple case study (Yin, 2003: 39-46), considering it as the most appropriate for providing a clear understanding of the best practices in management of the Mondragon Group production plants abroad. As can be seen in the following chart, two dimensions are guiding us in positioning our case study methodology. In our case, we assume the following statements:



**Figure 2.3:** Case study typologies (Yin 2003)

- Holistic: the case studies' unit of analysis will be the “industrial subsidiary” or the “production plant abroad”<sup>43</sup> (for instance, Copreci CZ). In the case of using an “embedded case study” to analyse the global co-ops' best practices (Copreci Group), different subunits would have been taken into consideration. But this it is not the case. Therefore, the focus will be specifically on the activity of a subsidiary as an independent unit itself.
- Multiple: as a result of the analysis carried in the previous phases, six best practices were identified, based on their current or potential contribution to successful co-operative strategies to be implemented abroad. The analysis of these six realities will follow a common protocol<sup>44</sup>. This involves the proposal that: “Any use of multiple-case designs should follow a replication, not a sampling logic, and an investigator must choose each case carefully. The cases should serve in a manner similar to multiple experiments, with similar results (a literal

<sup>43</sup> The terms “industrial subsidiaries”, “subsidiaries”, “production plants abroad”, “production sites abroad” and “production branches abroad” will be used indistinctly to name the production companies abroad owned totally or partially by Mondragon industrial co-operatives (global co-ops).

<sup>44</sup> Besides, the Mondragon Group international clusters' case study has been included, combining several production plants together and following a specific protocol.

replication) or contrasting results (a theoretical replication) predicted explicitly at the outset of the investigation.” (Yin, 2003: 47).

Other evidence which has fostered the use of case study technique in this phase III is the fact that there are multiple sources of information (personal interviews, co-operatives’ annual reports, direct observation, internal validation, etc.) for examining how co-operative best practices are managed. As Yin has suggested, “the case study inquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result benefits from the prior development of theoretical propositions to guide data collection analysis” (Yin, 2003: 13).

As a result, the following chart shows the three different techniques that are identified, explained and conducted in this research project:

<b>Methodology Strategy</b>	⇒ Form of research question	⇒ Requires control of behavioural events?	⇒ Focuses on contemporary events
Experiment	how, why?	YES	YES
② Survey	who, what, where, how many, how much?	NO	YES
① Archival analysis	who, what, where, how many, how much?	NO	YES / NO
Historic	how, why?	NO	NO
③ Case study	how, why?	NO	YES

Source: COSMOS Corporation – YIN R., 2003

**Figure 2.4:** Research techniques according to the methodology strategy

Following the methodological strategy, the study is divided mainly into four different units of analysis. These units are at the same time phases.

- Phase 0: Systematic analysis and study of secondary sources information for the topic “the Mondragon Group and globalisation” (Chapter 3).

- Phase I: Historical employment growth data analysis and multi-localisation impact analysis (Chapter 4).
- Phase II: Mondragon global co-ops international strategy and performance, and Mondragon co-operative principle extension analysis (Chapter 5 and 6).
- Phase III: Case studies on the best practices in management of the Mondragon production plants abroad (Chapter 7).

#### 2.2.4 Research project validation

According to Goode and Hatt, “the hypothesis is a question put in such a way that an answer of some kind can be forthcoming. It is an example of the organised scepticism of science, the refusal to accept any statement without empirical verification. Every worthwhile theory, then, permits the formulation of additional hypotheses. These, when tested, are either proved or disproved and in turn constitute further tests of the original theory. In either case this may be of use to existing theory and make possible the formulation of still other hypotheses” (Goode and Hatt, 1952: 56-57).

In order to test the research project, the main hypothesis (see 1.3), and according to the defined methodology, the following secondary hypotheses for each phase will be explored.

##### 2.2.4.1 Phase I: International multi-localisation impact on net job growth

- H1: “The co-operatives with at least one production plant abroad create more jobs **in their parent co-operative**”. For Mondragon Industrial co-operative activity during 1999-2006.
- H2: “The co-operatives with at least one production plant abroad create more jobs **in their local community**”. For Mondragon Industrial co-operative activity during 1999-2006.
- H3: “FDI generates a greater net-job growth **at the parent co-operative** during the three years after the first investment”. For Mondragon Industrial co-operative activity during 1999-2006.

- H4: “FDI generates a greater net-job growth **in the local community** during the three years after the first investment”. For Mondragon Industrial co-operatives activity during 1999-2006.
- H5: “The co-operatives with at least one production plant abroad do not necessarily have a smaller number of members out of the total workforce **in their parent co-operative**”. For Mondragon Industrial co-operatives activity during 1999-2006.
- H6: “The co-operatives with at least one production plant abroad do not necessarily have a smaller number of members out of (the) total workforce **internationally**”. For Mondragon Industrial co-operatives activity during 1999-2006.

#### 2.2.4.2 Phase II: International multi-localisation impact on competitiveness

- H7: International multi-localisation strategy enhances competitiveness through both the increase of total sales and the weight of those sales internationally.
- H8: The business goal of Mondragon international multi-localisation is to get international market share through an increase in the volume of total sales and the weight of those sales internationally.

#### 2.2.4.3 Phase III: Experiences of success in CSR management coherent with co-operative philosophy could be found in the Mondragon production plants abroad

- H9: There is an experience that integrates globally all the principles of worker participation in management, results and ownership, as well as a commitment to the immediate environment.
- H10: There are management best practices in all the countries examined, revealing that it is possible to assume a social dimension at each.



### 2.2.5 Testing protocol

#### *d) How should the internal validity and reliability of the analysis be tested?*

In the use of the case study as a research methodology the testing protocol tools are especially important.

TESTS	Case study tactic	Phase of research in which tactic occurs
<b>Construct validity</b>	⇒ Use multiple sources of evidence	Data collection
	⇒ Establish chain of evidence	Data collection
	⇒ Have key informants review draft case study report	Composition
<b>Internal validity</b>	⇒ Do pattern -matching	Data analysis
	⇒ Do explanation -building	Data analysis
	⇒ Address rival explanations	Data analysis
	⇒ Use logic models	Data analysis
<b>External validity</b>	⇒ Use theory in single -case studies	Research design
	⇒ Use replication logic in multiple -case studies	Research design
<b>Reliability</b>	⇒ Use case study protocol	Data collection
	⇒ Develop case study database	Data collection

*Source: Adaptation from COSMOS Corporation – Yin 2003*

**Figure 2.5:** Criteria used to judge the quality of research design

According to the chart above, several tactics might be used to increase case study reliability. Our research specifically pays attention to the following:

- Use of multiple source of evidence: combines personal interviews, the Mondragon Group global co-op activity internal data and annual reports, direct observation, and previous studies carried out as a secondary source.
- Validity of the results and of the case study reports: the three main units (phase I, II and III) have been reviewed independently by the people who have been interviewed at the Mondragon Group, at global co-ops' parent co-operatives, and at production plants abroad.
- Pattern matching: specific cross-analysis on pattern matching has been completed at the three phases in order to check internal coherence.

- Use of replication logic in multiple-case studies: the phase III case study analysis follows replication logic among the different subsidiaries at the same global co-op, achieving coherent results in both cases.
- Case study protocol and case study databases: in phase III both tactics have been incorporated.

### **2.2.6 Building of the theory**

#### *e) How can a theory be built based on the results and conclusions?*

The whole fieldwork of the project has pursued a common goal addressed to the main research question: the impact of Mondragon international multi-localisation strategy, and how the global co-ops are heading into the Mondragon Group globalisation process. However, the answer does not provide a conclusion for building a theory, unless the examination is conducted in line with the theoretical understanding explained in chapter one.

### **2.2.7 Restrictions or limitations for the research project final conclusions**

The methodology used in the research project involves understanding of the limitations or restrictions that the overall conclusion and findings will assume. With an aim to provide a correct interpretation, the following global limitations have to be considered:

- The research is limited to the Mondragon Group as an international social enterprise and regarding its best practice. Even if the project assumes interviews with experts outside the Mondragon Group co-operatives, comparative analysis with similar corporations beyond the Mondragon Group has not been carried out. Therefore, all the interpretations are to be understood in the context of Mondragon co-operative activity, and not as close examinations of the other corporations.
- While evaluating the analysis of the Mondragon Group generating employment for 1996-2006 (phase I) several limitations could be found, that would be explained more extensively in chapter four.

- Phase I is based on a quantitative analysis that validates the secondary hypotheses related to this phase. However, in both phases II and III the hypotheses validation is based on qualitative data. The quantitative analysis is proper to validate employment, while the qualitative sets in result a broader understanding and description of the activity at the production plants abroad.
- In phase III successful strategies worldwide implemented by the Mondragon Group co-operatives have been analysed; and these are based on phase II analysis.
- The analysis has been performed using limited sources of information and a single-researcher fieldwork (the number of interviews, visits, historical data analysis, and punctual cases). Overall conclusions achieved while analysing these social science realities are always partial as a result of the very limited source of information.

Finally, it should be noted that mention of additional and more detailed restrictions and limitations will be reflected in the analysis of each specific topic.

## 2.3 PHASE 0: SYSTEMATIC STUDY OF SECONDARY SOURCES ON THE TOPIC

This section reviews briefly the methodology used while conducting the systematic study of secondary sources on the topic “the Mondragon Group and Globalisation”.

This phase pursues two main objectives:

- To gather systematically all key information available on the topic.
- To present in a coherent and logic way the topic as a framework where the research questions take place.

### 2.3.1 Sources of information

The following main sources of information have been included while gathering the available secondary source:

- The Mondragon Group annual reports: from 1998 to 2006.
- The Mondragon Group sustainability reports: 2003 and 2005.

- The Mondragon Group internationalisation strategic plans: PEGI (1999-2003) and MEGI (2004-2008).
- The Mondragon Group strategic plan (2004-2008).
- The Mondragon Group variables and ratios reports: from 1999 to 2006.
- The Mondragon Group internationalisation department reports: “Learning community: Internationalisation I & II”.
- The Mondragon Group expatriate manual.
- TU Lankide monthly journal.
- Co-operatives annual reports.
- Previous literature on the topic; among the most important are: Irizar 2006, Errasti 2003 and 2005, Larrañaga 2005, Clamp 2003, “*Proyecto Testimonio*” from MU-Lanki 1999, Cheney 1999, Vanek 2007, Cote 2001, and Ugarte 2004.
- Mondragon International Congress on Co-operativism: Mondragon Unibertsitatea (July 2005).
- Mondragon Unibertsitatea Master in Co-operativism: 2006-07.

It has to be mentioned that in most of the cases the information was unknown, and the data are available for the first time in this research, for the previous research were only based on very partial data. But integration of all available information was needed, in order to have a coherent overall perspective. Therefore, most of the tables and figures presented in the study are ex novo, or a new adaptation of primary source information.

### **2.3.2 Presentation of the topic: the Mondragon Group and globalisation**

Relaying on the information gathered, the topic “the Mondragon Group and globalisation” is presented according to the following points:

- Historical background.
- The Mondragon Group globalisation strategy.
- Roles assumed in the internationalisation of the Mondragon Group.
- Main impacts of the Mondragon Group globalisation.
- The strategic objectives of the Mondragon Group (2004-2008).

Thanks to this phase 0, one arrives at a deep understanding of the problematic and the topic framework. Phase 0 confirms the research interest, and that no answers were found in previous literature or in previous Mondragon Group internal reports.

## 2.4 PHASE I: DATA ANALYSIS OF HISTORICAL EMPLOYMENT GROWTH

This section presents a deep analysis of certain aspects of the methodology that will be used in this phase. However, the common aspects pointed out before will not be repeated here.

The main objective of this phase is to explore the primary impacts of the globalisation process, based on the evolution of employment at the Mondragon Group during the period 1996-2006.

### 2.4.1 Phase I methodological framework

This phase focuses on the main social objective of worker co-operatives: the employment growth. This phase is based on archival data analysis of the Mondragon Group Headquarters, and on Mondragon co-operatives' activity reports (fig. 2.6).

Strategy	⇒ Form of research question	⇒ Requires control of behavioural events?	⇒ Focuses on contemporary events
Experiment	how, why?	YES	YES
Survey	who, what, where, how many, how much?	NO	YES
① Archival analysis	who, what, where, how many, how much?	NO	YES / NO
Historic	how, why?	NO	NO
Case study	how, why?	NO	YES

**Figure 2.6:** Phase I: Methodological technique used

The archival analysis is based on a 1996-2006 data series which include the following primary variables as indicators of co-operative employment:

VARIABLE NAME	VARIABLE DESCRIPTION
<b>Employment (H1, H2, H3 &amp; H4)</b>	
PT	Total number of jobs
PIN	Number of jobs in Spain
PCOOP	Number of jobs in parent cooperative
PEX	Number of jobs abroad
MEM	Number of cooperative members
<b>Cooperative members vs. Non members (H5 &amp; H6)</b>	
MEMdPT	Cooperative members divided by Total jobs (MEM/PT)
MEMdPIN	Cooperative members divided by Workers in Spain

Source: *ex novo*

**Figure 2.7:** Phase I: Test variables description

Based on the above source variables, specific ratios have been defined; these will be used and measured for testing the hypotheses. This database has been constructed from Mondragon Group Headquarters annual reports, and includes co-operative activity reports during 1996-2006 for Mondragon industrial co-operatives, gathered personally by me during the years 2005 and 2007. For the first time, a database of Mondragon global co-ops is available, which in turn has allowed to compare their performance with other co-operatives.

	WORKFORCE AT 31 DEC.			GROWTH 99-06	
	1999	2002	2006	JOBS	%
<b>GLO_PT</b>	13,318	21,049	32,041	<b>18,723</b>	<b>140.58%</b>
<b>GLO_PIN</b>	11,884	15,255	18,123	<b>6,239</b>	<b>52.50%</b>
<b>GLO_PCOOP</b>	11,367	13,832	14,554	<b>3,187</b>	<b>28.04%</b>
<b>LOC_PT</b>	8,595	10,117	10,403	<b>1,808</b>	<b>21.04%</b>
<b>LOC_PIN</b>	8,070	9,970	10,064	<b>1,994</b>	<b>24.71%</b>
<b>LOC_PCOOP</b>	8,010	9,597	9,108	<b>1,098</b>	<b>13.71%</b>

Source: *ex novo*.

**Figure 2.8:** The Mondragon Group industrial division – Global co-ops vs. Local co-ops

The methodology procedure in the current phase is:

- Definition of hypotheses and variables.
- Definition of a specific statistical test to be conducted with the purpose of confirming each hypothesis.
- Database creation: with the aim of gathering information (source variables) and formulating the research project main ratios.
- Testing: according to the methodology defined and according to the database.

- Results: accepting or rejecting the hypotheses.

The methodology as a whole is based on the following main criteria:

- Division of Mondragon industrial co-operatives into two different groups: global co-ops and local co-ops (fig 2.8):
  - Global co-ops: those co-operatives which at the end of 2006 have at least one production plant abroad. The reference is to production plants, not to commercial subsidiaries.

Following such a criteria, at the end of 2006, 25 co-ops are identified as global co-ops with 65 production plants abroad (fig. 2.9).

  - Local co-ops: those co-operatives which at the end of 2006 have not any production plant abroad.

GLOBALCOOPS	YEAR FIRST FDI
COPRECI	1989
FAGOR ELECTRONICA	
ULMA CONSTRUCCION	1993
IRIZAR	
FAGOR ELECTRODOMESTICOS	1994
FAGOR AUTOMATION	
MAIER	1999
EIKA	
MONDRAGON ASSEMBLY	2000
FAGOR INDUSTRIAL	
DIKAR WINGROUP	
LKS	
FAGOR EDERLAN	2001
MATZ ERREKA	
CIKAUTXO	2002
DANOBAT	
SORALUCE	
ORKLI	
ORBEA	2004
TAJO	
COINALDE	2005
ELECTRA	
BATZ - MATRICI	
EGURKO	2006
EMBEGA	

*Source: ex novo, adapted from MCC 2006*

**Figure 2.9:** The Mondragon Group 25 global co-ops

- Both groups, global and local, are considered as paired samples at an annual basis for the period 1999-2006. Following a parametric, normal bivariant

distribution or a non-parametric one, samples' means are examined in order to measure if there is a statistically significant difference or not between the groups and in the direction of their relationship. The parametric distribution uses a T-student test with  $K=n-1$ . For the non parametric distribution the Wilcoxon test will be used; "along with the Mann-Witney U Test, (the) Wilcoxon Test (1945) is one of the most popular non-parametric tests. This test, also known as 'Rank-Sums test', compares the position of the distribution of two variables based on their paired data" (Narvaiza et al. 2001: 266).

## 2.4.2 Quantitative validation and test conducted

This phase I includes six tests for secondary hypotheses (see section 2.2.4.1). The tests conducted for the six hypotheses are based on the overall methodological framework of examining global co-ops and local co-ops as a paired sample, and using the following variables for each hypothesis test.

HIPOTHESIS	VARIABLES CONFRONTED	
	GLOBAL COOPS	vs. LOCAL COOPS
H1	GLO_PCOOP_99	- LOC_PCOOP_99
H2	GLO_PIN_99	- LOC_PIN_99
H3	SW_GLO_PCOOP	- HYPO_PCOOP
	LDID_PCOOP_REAL	- LDID_PCOOP_HYPO
H4	SW_GLO_PIN	- HYPO_PIN
	LDID_PIN_REAL	- LDID_PIN_HYPO
H5	GLO_MEM/PCOOP	- LOC_MEM/PCOOP
	GLO_MEM/PCOOP_99	- LOC_MEM/PCOOP_99
H6	GLO_MEM/PT	- LOC_MEM/PT
	GLO_MEM/PT_99	- LOC_MEM/PT_99

*Source: ex novo.*

**Figure 2.10:** Phase I: Variables used by hypotheses

Tests are based on the specific employment growth and/or its adaptation, using 1999 as the base year for the hypotheses H1, H2, H4, H5 and H6. Regarding the hypotheses H4 and H5, a new variable is used: while trying to measure the specific impact of FDI on co-operative employment, we have to identify in the first place those global co-ops at the end of 2006 that were not global co-ops in 1999. It can be said that those co-operatives which assumed their first FDI (opened their first production plant abroad)



during the period analysed (1999-2006), switched from local to global co-ops (SW global co-ops).

Comparison of the performance of the SW global co-ops firms before (*ex ante*) and after (*ex post*) the FDI is required. According to Barba Navaretti and Castellani 2003<sup>45</sup>, the *ex post* SW global companies behaviour needs to be compared with the performance that the company would had if it had not started the FDI investment. As the behaviour of a firm cannot be controlled in a laboratory, *propensity score matching* is used in order to construct a *counterfactual* firm with which it can be compared, one which aims at re-establishing the conditions of a natural experiment with non-experimental data. It is held that, based on the previous performance of a firm (including areas such as, among others, sales and employment) the closest local company in the database is selected by comparing the *ex post* performance of the SW company with this counterfactual local company.

Propensity score matching has been broadly used in recent years while evaluating the policy intervention in the labour market (Heckman et al. 1997, Blundell et al. 2002), and the effects of exporting and of acquisitions on firms' performances and on returns to scale (Girma, Greenaway and Kneller 2002). Particularly important to our research is Barba Navaretti et al. (2003, 2004 and 2006) evaluating the impact of FDI on local jobs at parent companies and based on an analysis in Italy and France. Inspired by the Barba Navaretti approach and taking into account that  $K=14$  for our SW-global co-ops, we create a specific counterfactual local co-op. The counterfactual criterion selected is the average of employment growth at Mondragon Group local co-ops during the specific years for each SW global co-ops investment date<sup>46</sup>.

Specifically, we make an adaptation of SW and difference-in-difference estimator (DID). The DID estimator compares the difference between pre- and post-investment performance growth in both groups. It measures the difference in the change of the steepness of the performance trajectories for the two groups of firms.

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<sup>45</sup> This methodological approach was built in 2003 analysing Italian firms during 1999-2002. Afterwards it has been replicate in other countries: in 11 European countries (G. BARBA NAVARETTI and A.J. VENABLES 2004) and in Italian and French SW's firms (G. BARBA NAVARETTI, D. CASTELLANI and A. DISDIER 2006) with a reliable and robust performance.

<sup>46</sup> Please, note that computer propensity score matching has not been used.

In our case, only employment performance ( $L$ ) is included; other economic performance variables (sales, output, etc.) are not taken into account in this analysis. We define SWI for the *expost* comparison between SW global co-op and the behaviour of the corresponding hypothetical local co-op. We define LDID for the comparison between employment net-job growth *expost* and *exante* for both variables: SW global co-ops and the said hypothetical local co-op.

Formally, they are given by:

$$\hat{\alpha}_{SWI} = [\Delta \bar{L}_{it+3}^1 \sim \Delta \bar{L}_{it+3}^0]$$

$$\hat{\alpha}_{LDID} = [\Delta \bar{L}_{it+3}^1 \sim \Delta \bar{L}_{it-3}^1] \tilde{=} [\Delta \bar{L}_{it+3}^0 \sim \Delta \bar{L}_{it-3}^0]$$

Where:

$\Delta \bar{L}_{it+3}^1$  = The mean employment growth achieved by the company in the third year after the start of FDI

$\Delta \bar{L}_{it+3}^0$  = The mean employment growth achieved by the counterfactual company in the third year after the start of FDI

$\Delta \bar{y}_{it-3}^{-1}$  = The mean employment growth achieved by the company in the previous three years previous to the start of FDI

$\Delta \bar{y}_{it-3}^{-0}$  = The mean employment growth achieved by the counterfactual company on the three years previous to the FDI

$\Delta \bar{L}_{it-3}^1$  = Employment growth achieved in the three years before the FDI

$i$  = the specific company  $K=14$

$t$  = the FDI year, being different for each company

### 2.4.3 Data and methodology limitation

In order to interpret properly the previous test and accept or reject the proposed hypotheses the following data limitation has to be taken into consideration:

#### 2.4.3.1 The sample size of the period analysed

The sample size is small, especially for using a statistical test. To reach deeper conclusions about the internationalisation process of the Mondragon co-operatives, the statistical results are more significant with a larger paired sample. In order to solve this limitation, two criteria might be applied:

- More frequent period criteria could have been used; for example, instead of annual reports, monthly or term reports. This possibility was taken into consideration but the reliability and data quality are very limited in this case. Therefore, this criterion has not been included.
- Data over a longer period of years could also have been analysed, for instance analysing data from prior to 1999. This criterion was also analysed; however, we found once again that the information quality was small, mainly due to the fact that the Mondragon Group Headquarters did not incorporate systematically in their annual reports the number of employees abroad until 1999. Specific co-operative data regarding employees abroad prior to 1999 have been analysed; for instance, the Irizar Group, Fagor Electrodomésticos or Copreci. But unfortunately, there are not similar criteria for differentiating employees that were in production plants abroad.

In order to reach a deeper understanding of the internationalisation process of the Mondragon Group, it will be necessary to replicate the current research, obtaining data over longer periods that are consequently of greater duration and hence more reliable (beginning in 2007 and then moving into 2008 and so on).

#### 2.4.3.2 The test conducted is descriptive and not cause-effect

When interpreting the relationship between the globalisation process and net job growth in the parent co-operatives (H1) or in the cooperatives' local community (H2), and the co-operative members vs. non-members evolution (H5 & H6), the results cannot be taken as a response to a causal-effect relationship. The maxim "*post hoc, ergo propter hoc*" (after this, therefore because of this) applies only to the research conclusions; therefore, we cannot say the global dimension is the unique reason for net-job growth

(PT, PIN). The H3 and H4 were specifically measuring this causal effect relationship, based on propensity score matching descriptive analysis.

#### 2.4.3.3 The gathering data criteria used:

The information of production plants abroad is included, based on the following conditions:

- The total ownership stake of the co-operative in the foreign production plant must be greater than 20% of the total.
- The annual total sales have to be greater than €3m.
- The number of employees in production plants with less than a 51% ownership stake will be weighted according to the percentage the co-operative owns. For example, the Fagor Electrodomésticos Group's total workforce at the end of 2004 was 10,733, while the Mondragon Group's annual report, and consequently our research project, considers that Fagor has only 6,053. The reason is that ownership at Fagor-Brandt in France by the end of 2004 was at 10%.
- The subsidiaries included are exclusively production plants; this means that they must have a manufacturing activity in order to be considered. The Mondragon Group industrial co-operatives have 65 production plants abroad and more than 200 commercial subsidiaries abroad. The so-called commercial subsidiaries are not included.

The requirements described do standardise the specific criteria used by each co-operative based on their individual annual reports; however, some information is missing, such as:

- Data of small subsidiaries, co-operatives closed in the first years, while they were small; new mean projects not yet big enough and consistent nor fully established are not included.
- Data of commercial subsidiaries. Once again this signifies a more nuanced understanding of the Mondragon internationalisation process. In general terms, these subsidiaries will have a smaller number of employees; besides, there are different kinds of this type of subsidiaries, and in some cases might not reflect

the specific co-operative activity properly. As an example, we might point out the lift and elevator co-operatives; their production activity is to build lifts, but the weight of their SAT-PTA<sup>47</sup> entails a huge impact on their number of employees and on their total revenues. The criteria assumed will not include, for instance, Orona Portugal S.U.L, with 80 employees by the end of 2006, neither the Electra Vitoria subsidiary in Mexico with 69 workers by the end of 2006.

The research includes the 14,216 jobs that refer to the industrial subsidiaries abroad (see section 3.4.4 to have a clear understanding on the Mondragon Group number of employees working at industrial and commercial subsidiaries at the end of 2006).

#### 2.4.3.4 Local co-op data is obtained from total co-op-global co-op

This criterion may include hidden negative qualities that might cause a misinterpretation. Thus, it could be interesting to repeat this same research in the future when quality data on these co-operatives is improved.

#### 2.4.3.5 Information about Ulma Group employment

The Ulma Group data, which joined formally the Mondragon Group in 2001, has been included from that year on in order to be consistent with the Mondragon Group reports:

- On one hand, hypotheses tests including and not including this data have been carried out with similar results, so there is not any incoherence in our hypotheses due to the fact of including Ulma data or not.
- On the other hand, the employment growth not including Ulma is significantly smaller at both groups: global co-ops and local co-ops.

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<sup>47</sup> Provision of Technical Assistance (*Servicio de Asistencia Técnica*).

	TOTAL COOPS	GLOBAL COOPS	LOCAL COOPS
PT	94%	141%	21%
	78%	125%	6%
PIN	41%	53%	25%
	29%	42%	10%
P COOP	22%	28%	14%
	10%	17%	0%

Source : ex novo  ULMA Group Included in 2001  ULMA Group NOT Included

**Figure 2.11:** The Mondragon Group industrial division net-job growth 1999-2006

There are additional small co-operatives (Ampo, Matrici or Electra Vitoria) that joined the Mondragon Group after 1999, and their data have been included from the moment they joined the corporation. This fact makes difficult the Mondragon Group “endogenous vs. acquisition” employment growth analysis.

#### 2.4.3.6 Other considerations:

These items have to be taken into account while interpreting the results:

- The internationalisation stage (the 10 first years) on Mondragon industrial co-operatives: as a whole one may consider co-operatives on their 10 first years of the globalisation and multi-localisation strategy. Most Mondragon subsidiaries abroad are in the launching (one to five years) or consolidating phase (six to 15 years)<sup>48</sup>. Every conclusion and interpretation provided needs to highlight this important fact; otherwise, it might be a misunderstanding on the impact of globalisation on co-operatives. The next stages in the internationalisation process may give place to new interpretations such as:
  - The Mondragon global co-ops may identify new ways of participation over all their employees, no matter where they are located or which is the legal form of those subsidiary companies abroad.
  - The Mondragon global co-ops’ strategy might not be successful in the coming future, hence reducing their capacity of employment creation totally, abroad and/or at home.

<sup>48</sup> There are some exceptions such as Copreci Mexico and Fagor Electrónica opened on 1987-88.

- The economic feasibility of the Mondragon global co-ops' subsidiaries will improve or not in the mid- to long-term.
- The global co-ops included are those existing at the end of 2006; this has to be taken into account while interpreting other periods, such as 1999-2004, singularly.
- The influence of economic growth in the Mondragon region, Spain, Europe and worldwide during the analysed period: 1999-2006.
- The conclusions are based on merged information; the different stages, sizes and strategies followed in the globalisation process by each specific global co-op has not been analysed in phase I. Phase II will study specifically these items<sup>49</sup>.
- The analysed employment data are based on net job growth: it does not include people who left the company, or those who retired. This fact is especially important when interpreting growth in the number of co-operative members.
- A 95% probability rate was used in H1, H2, H5 and H6 and a 90% probability rate in H3 and H4.
- Information of co-operatives recently created or co-operatives that closed has not been specifically treated.

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<sup>49</sup> For further detail see sections 5.4 and 5.5.

## 2.5 PHASE II: MONDRAGON GLOBAL CO-OPERATIVES INTERNATIONAL STRATEGY AND PERFORMANCE

This section will analyse some particular aspects of the methodology used in this phase of the research project. The general aspects previously analysed will not be repeated. Although the phase II follows a common methodological framework, two sub-sections have been defined based on the global co-operatives performance (phase II-a in chapter 5) and on principles (phase II-b in chapter 6).

### 2.5.1 Phase II methodological framework

The methodology as a whole is based on the following main criteria:

- 2.5.1.1 It combines two sources of information: the Mondragon Group annual reports, and personal interviews.

Strategy	⇒ Form of Research Question	⇒ Requires Control of behavioral Events?	⇒ Focuses on Contemporary Events
Experiment	how, why?	YES	YES
Survey	who, what, where, how many, how much?	NO	YES
2 Archival analysis	who, what, where, how many, how much?	NO	YES / NO
Historic	how, why?	NO	NO
Case study	how, why?	NO	YES

**Figure 2.12:** Phase II: Methodological technique

We use the same “primary variables” presented on Phase I as a source of information calculating the ratios presented in the following table. This information has been gathered personally from 1996-2006 annual reports. In order to interpret properly the results see on section 6.3.3 a detailed description of the gathering data limitations.



VARIABLE NAME	VARIABLE DESCRIPTION
<b>Employment</b>	
PT	Total number of workers
PIN	Number of workers in Spain
PCOOP	Number of workers in parent cooperative
PEX	Number of workers abroad
MEM	Number of cooperative members
PEX/PT	Workers abroad divided by total workers
PEX/PIN	Workers abroad divided by workers in Spain
PEX/PCOOP	Workers abroad divided by parent cooperative workers
NEW_PT	Number of PT created since 1994
NEW_PIN	Number of PIN created since 1994
NEW_PCOOP	Number of PCOOP created since 1994
NEW_PEX	Number of PEX created since 1994
<b>Economic activity</b>	
TSALES	Annual sales
EBITDA	Annual EBITDA
TINVEST	Annual investment
TPURCHASES	Annual purchases
TSALES/PT	TSALES divided by PT
TSALES/MEM	TSALES divided by MEM
EBITDA/PT	EBITDA divided by PT
EBITDA/MEM	EBITDA divided by MEM
TINVEST/PT	TINVEST divided by PT
TINVEST/MEM	TINVEST divided by MEM
<b>Globalization</b>	
INTERSALES	International sales
EXPORT	Exports
IMPORT	Imports
INTERPURCHASE	International purchases
%INTERSALES	INTERSALES divided by TSALES
%INTERPURCHASES	INTERPURCHASES divided by TPURCHASES
PEX/PT	% Workers abroad (represent production activity)
RINTER	MCC internationalization ratio
SUBNUM	Number of production plants abroad

Source: *ex novo*

**Figure 2.13:** Phase II: Test variables and ratios

#### 2.5.1.2 Phase II unit of analysis is Mondragon global co-ops:

Those Mondragon co-operatives with at least one production plant at the end of 2006 (global co-ops) were 25; their international strategy and performance during 1999-2006 have been analysed. Among these, there are three different groups:

- MNE global co-ops: those co-operatives that at the end of 1999 already had a production plant operating abroad with an international multi-localisation experience longer than 10 years.
- SW global co-ops: those co-operatives that at the end of 1999 were local co-ops, during the period 1999-2005 switching their status by implementing their first international FDI abroad.

- New global co-ops: those co-operatives that implemented their first international FDI during 2005 or 2006. Those co-operatives do not yet possess records on their international multi-localisation strategy.

MULTI-LOCALIZATION EXPERIENCE	GLOBALCOOPS	YEAR FIRST FDI
<b>MNE GLOBAL COOPS</b> FDI before 1999	COPRECI	1989
	FAGOR ELECTRONICA	1993
	ULMA CONSTRUCCION	1994
	IRIZAR	1999
	FAGOR ELECTRODOMESTICOS	
<b>SW GLOBAL COOPS</b> First FDI 1999-2005	FAGOR AUTOMATION	
	MAIER	
	EIKA	2000
	MONDRAGON ASSEMBLY	
	FAGOR INDUSTRIAL	
	DIKAR WINGROUP	
	LKS	2001
	FAGOR EDERLAN	
<b>NEW GLOBAL COOPS</b> First FDI 2006	MATZ ERREKA	2002
	CIKAUTXO	
	DANOBAT	
	SORALUCE	
	ORKLI	2004
	ORBEA	
	TAJO	2005
	COINALDE	
	ELECTRA	
	BATZ - MATRICI	2006
	EGURKO	
	EMBEGA	

Source: *ex novo*

**Figure 2.14:** The Mondragon Group 25 global co-ops – By timing

### 2.5.1.3 Personal interviews following a common protocol and questionnaire

The personal interview was selected as the most appropriate tool for analysing a wide variety of companies and production plants in diverse geographical locations. This is coherent with Yeung statement: “qualitative personal interview method is a much better technique than other common techniques in international business research such as postal surveys and telephone interviews. This argument is particularly relevant when the research is conducted in an urban context and the objective is to probe deeply into the processes and mechanisms of international business. Another dimension of the qualitative personal interview method is that it provides much flexibility both in the conduct of data collection and subsequent analysis. This advantage proves to be critical to international business research because of the changing context of research and concern with business firms operating simultaneously in several geographical locations” (Yeung, 2000: 314).

The personal interviews of the present project have followed a specific protocol and a questionnaire that includes some compulsory sections and some optional ones. An interview protocol and questionnaire was defined in order to achieve a rationally unified process on data collection procedure.

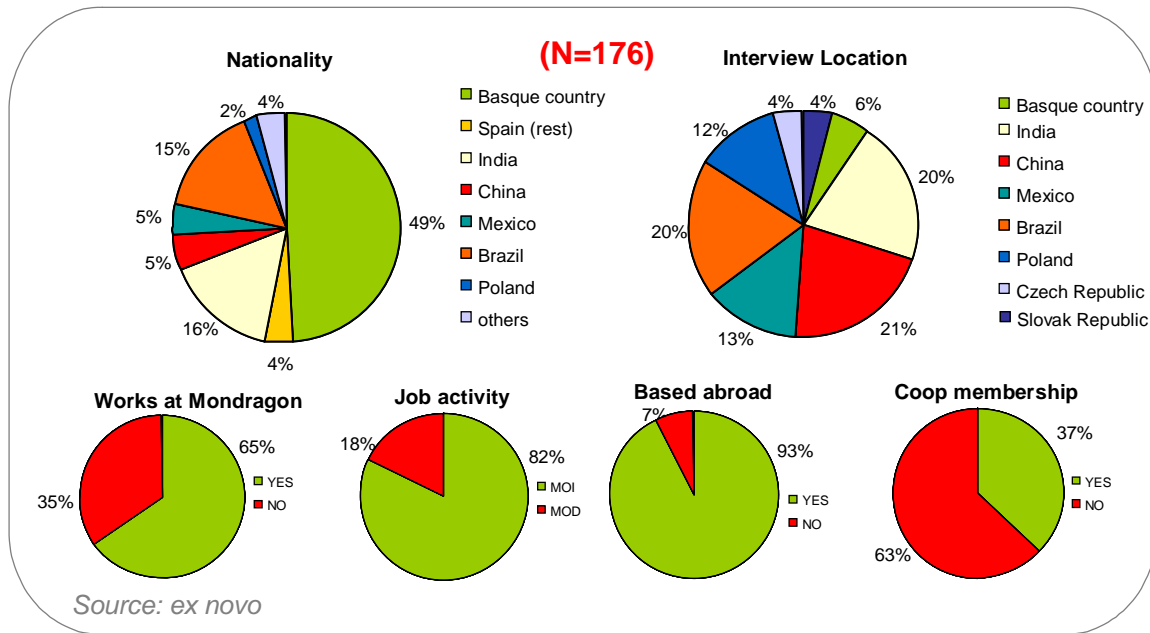
Sections	☞ Topic analyzed	☞ Obligatory section
Section 1	<b>Implementation abroad original motivation</b>	YES
Section 2	<b>Current situation and subsidiary strategy</b>	YES
Section 3, 4 & 5	<b>Section 3: People management Section 4: Subsidiary CSR Section 5: Cooperative principles</b>	NO
Section 6	<b>Limitations or barriers for coops' principles subsidiary implementation</b>	YES
Section 7	<b>Facilitating factors and incentives for coops' principles subsidiary implementation</b>	YES
summary	<b>Survey facts and records</b>	YES

Source: *ex novo*

**Figure 2.15:** Interview protocol- questionnaire

Once the whole survey methodology was defined, a pilot interview was carried out in order to test the suitability of the questionnaire defined. Several findings were identified in this pilot interview and were included in the final version of the questionnaire (see the entire questionnaire on Appendix I).

The duration of the interviews was estimated in a maximum of 2 hours, the final average has been one hour and 53 minutes when merging all the interviews together. Almost all of the interviews were audio recorded and reviewed later on.



**Figure 2.16:** Sample profile: people interviewed (N=176)

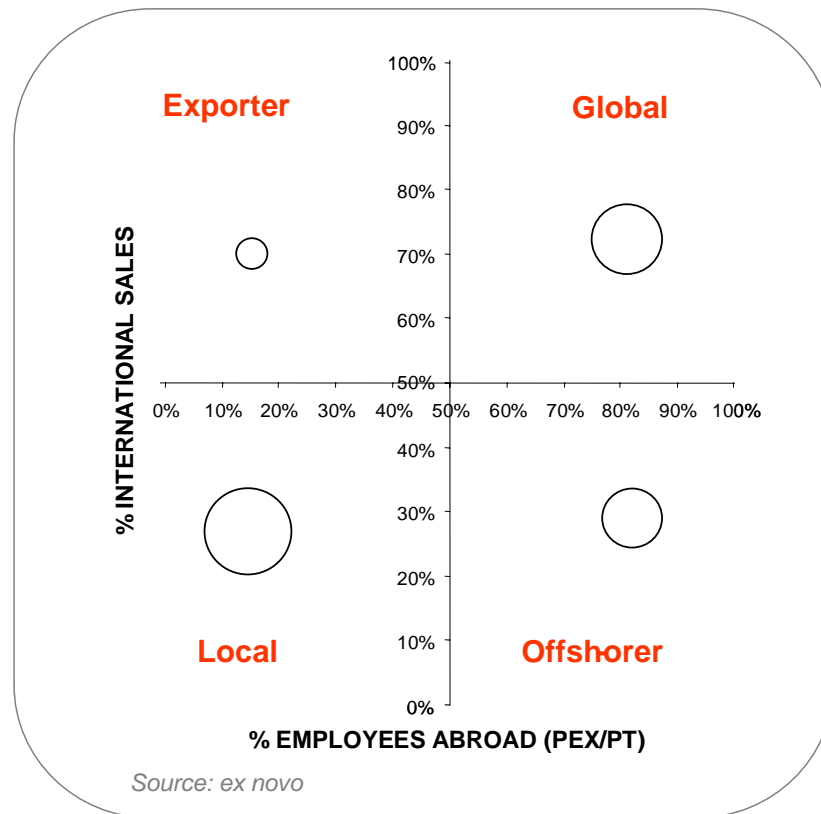
We also combine this information with annual reports. In this phase II our unit of measure was the Mondragon Group global co-ops according to their respective consolidated data (the Fagor Electrodomésticos group, the Copreci Group, the Irizar Group, etc.). Subsequently, in phase III our unit of research will feature a specific subsidiary of these global co-ops (Fagor MasterCook, Irizar-TVS, etc.).

## 2.5.2 Qualitative validation and tests conducted

The global co-ops qualitative validation and analysis is carried out at three different levels: Mapping overall strategy, mapping performance by timing, and mapping performance by region. All this conforms to a common analysis methodology.

### 2.5.2.1 International scenarios based on the weight of international sales and international production (phase II-a)

We present four potential scenarios (Local, Exporter, Offshorer and Global) where companies might be positioned, based on the weight of their international sales, and on the weight of production abroad measured by the weight of the number of workers abroad over the total workers.



**Figure 2.17:** International strategy scenarios: sales vs. production

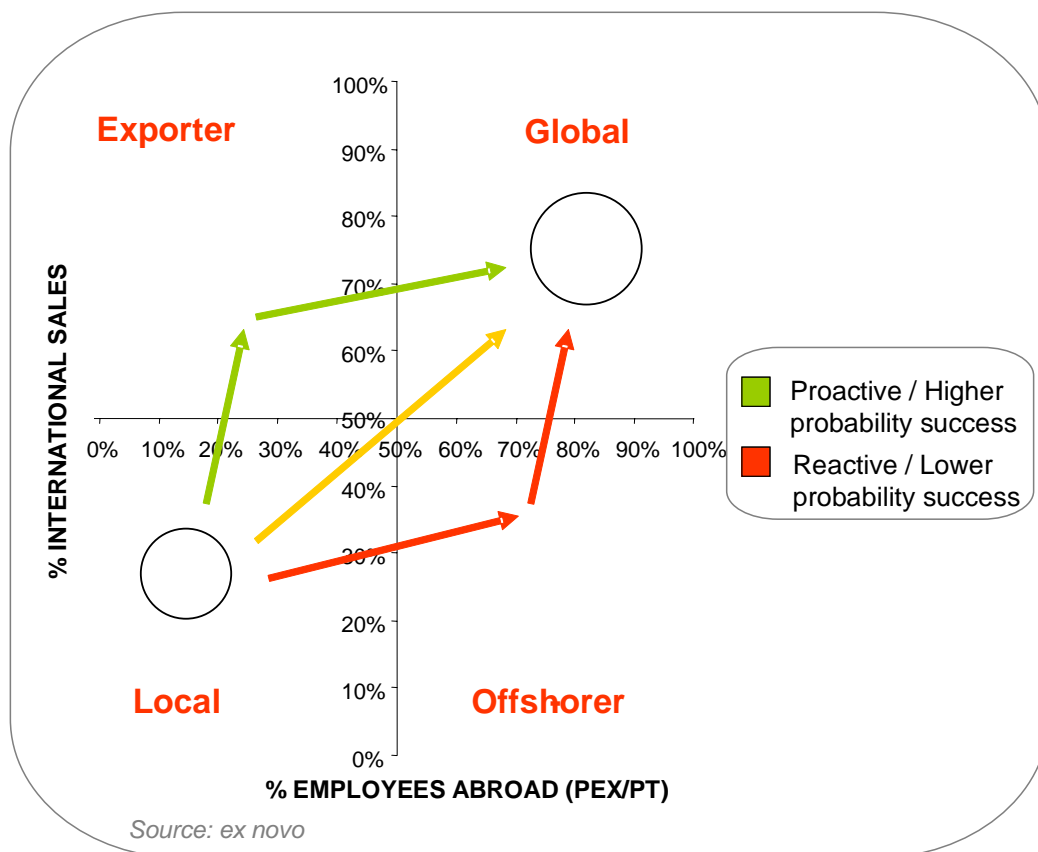
According to “% international sales / total sales” and “% number of employees abroad / total workers”, every company might be qualified as:

- **Local:** its sales activity based mainly in local markets with international sales lower than 50% of total sales, and their workforce abroad less than the 50% of their total workforce. For most corporations this scenario is the point of departure on the internationalisation process.
- **Offshorer:** its strategy is based on the local market with international sales below 50% of their total sales, but with workforce abroad more than 50% of their total workforce. This scenario might be the result of specific characteristics of the industrial sector, or the result of a lack of sales competition in the local markets due to new low-cost country competitors, or the result of a de-localisation process willing to reduce costs and increase margins in local markets. Companies following a reactive strategy to global competence are found, and also some not committed to local employment.
- **Exporter:** its sales activity is global, with international sales above 50% of their total sales, but their workforce abroad is of less importance, less than 50% of

their total workforce. Companies in this scenario have achieved an important performance in international markets. Such a scenario is usually the second step on the corporation internationalisation process.

- **Global:** corporations qualified as global players combine an international sales total of greater than 50% of total sales and a weight of workers abroad of more than 50% of their total workforce. These companies have achieved strategic position in global markets sales and productivity.

According to the previous sales vs. production international strategy, three different approaches and paths might be followed to reach a global player qualification:



**Figure 2.18:** International strategy paths: sales vs. production

These paths do not have the same cost and probability of success.

- The green path responds to a gradual and proactive route based on sales growth with a high probability of success.

- The yellow path usually responds to an internationalisation process based on a foreign company's acquisitions with access to market share. This might be a more radical, reactive, and more costly strategy.
- The red path responds to a reactive strategy, increasing firstly the production competitiveness. It is not common to find companies that have achieved a global player position as a result of this strategy.

In order to understand the internationalisation process of global co-ops, their international purchasing performance will be also analysed.

The size of the bubble may include several criteria to be monitored:

- **TSALES:** the amount of the global co-op total sales.
- **PT, PCOOP or PEX:** the number of total employees (PT), employees at parent co-operative (PCOOP) or employees abroad at the global co-op (PEX).
- **Mondragon internationalisation ratio:** a specific ratio including the weight of international sales, purchases and production abroad.

$$\frac{2 \times \% \text{International sales} + 2 \times \% \text{Workers abroad} + 1 \times \% \text{International Purchases}}{5}$$

Source: MECI 2004-2008 - MCC

**Figure 2.19:** The Mondragon Group ratio for internationalisation

- **PT growth:** measurement of the net-growth in number of “total employees” during the period.
- **PIN growth:** measurement of the net-growth in number of “employees in Spain” during the period.
- **PCOOP growth:** measurement of the net-growth in number of “parent co-operative employees” during the period.
- **PEX growth:** measurement of the net-growth in number of “employees abroad” during the period.
- **EBITDA/MEM:** measurement of the EBITDA generated during the year and divided by the number of “co-operative members” at the end of the year

- **EBITDA/PT:** measurement of the EBITDA generated during the year divided by the number of “total employees” at the end of the year

This research will review the whole annual activity of all of the Mondragon global co-ops for the period 1999-2006; however, the final report only includes total sales (TSALES).

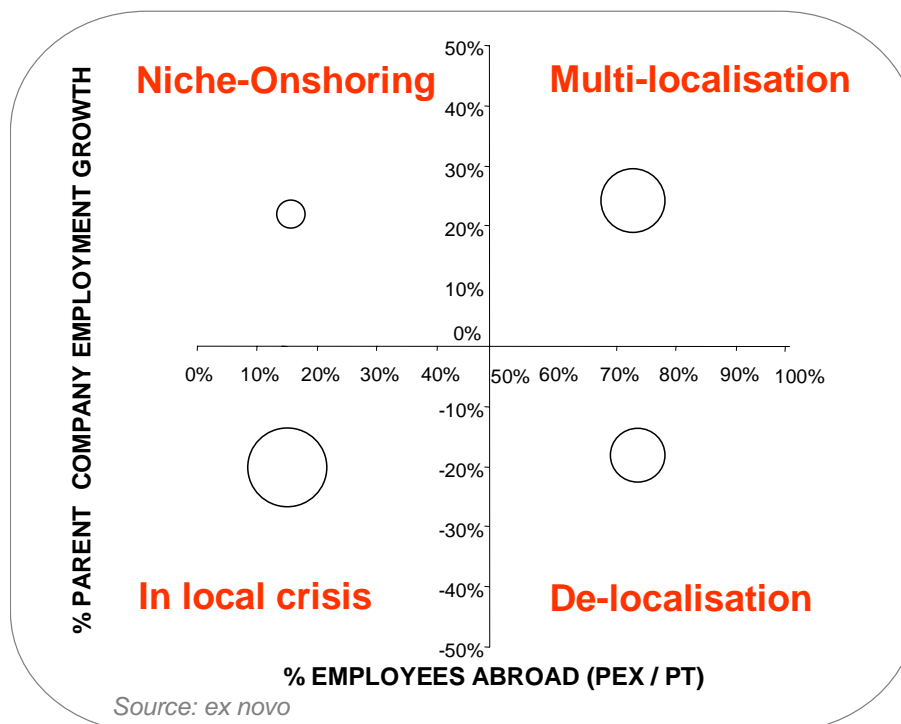
The previous classification has two purposes:

- To analyse and compare different global co-ops as regards their internationalisation process strategy and stage.
- To analyse individual global co-op evolution along the time.

#### 2.5.2.2 International strategy based on employment growth at parent co-operatives and employment growth abroad (phase II-a)

Our methodology includes a specific tactic to measure the globalisation framework, based on the company’s commitment to employment. Global co-ops’ globalisation processes are classified according to two criteria:

- Percentage of parent company employment growth
- Percentage of workers abroad out of total workers





**Figure 2.20:** International strategy: global production vs. local net job growth

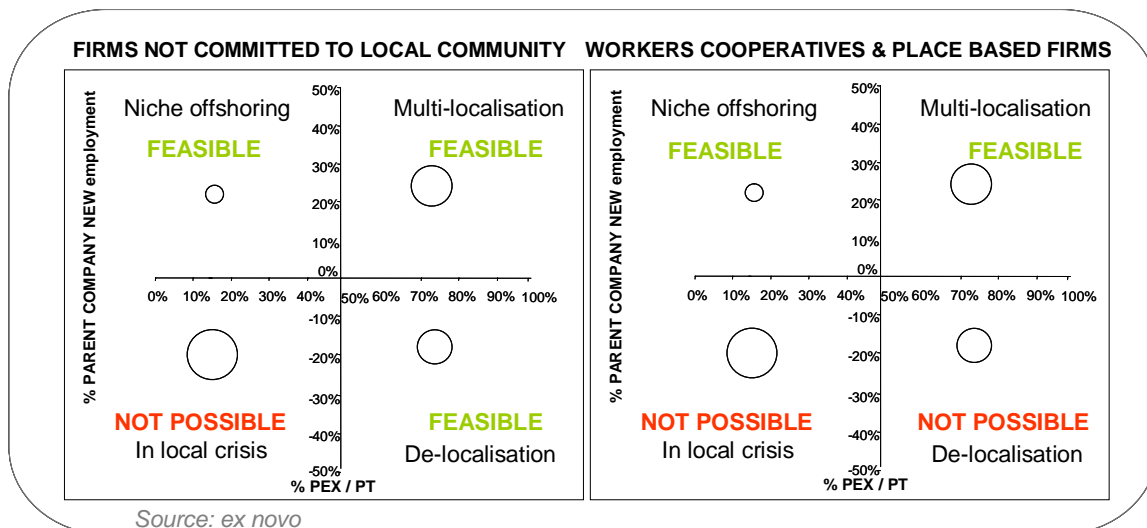
According to these criteria we may qualify a company strategy as:

- **Multi-localisation:** a company at which the globalisation process not only generates new employment abroad, but also has a positive net-job growth on the parent company. This strategy is coherent with an international and local sales growth.
- **De-localisation:** a company at which the globalisation process generates new employment abroad by reducing employment at the parent company. This strategy is the result of a de-localisation process, coherent with a lack of international sales and of an outsource offshoring policy: cost reduction, or dependence on foreign technology.
- **Niche-onshoring:** a company that does not generate new employment abroad, but is based on a local production niche<sup>50</sup> that is able to generate new employment at the parent company.
- **In local crisis:** a company that is not able to generate employment abroad or even maintain employment at the parent company. This status is the most difficult one and usually the result of an international strategy absence. If there is no change in the international strategy and performance, the company will find itself in a severe socio-economic condition.

According to the previous classification, each strategy and its long-term viability is highlighted. We compare possible success scenarios for conventional business corporations (companies without a specific commitment to their parent company local community), and worker co-operatives as companies committed to their local community and employment.

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<sup>50</sup> A local production niche for an industrial corporation might be the result of a strategy in which the main sales/profits do not come from the industrial product sale itself but from additional income attached to the product. That is the case of the Mondragon Group for industrial equipment or construction renting services, or for lift producers whose main business is in SAT.



**Figure 2.21:** Globalisation framework & employment commitment

As presented above, in the bubble size, several general criteria (such as international sales, total sales, number of workers abroad or EBITDA) and co-operative specific ones (such as PT growth, PEX growth, PCOOP growth, EBITDA/MEM, EBITDA/PT) might be included. We consider international sales as the most reliable criterion to be used: the reason is that while comparing different companies in a similar economic sector or inside the same group, or indeed while measuring a company historical internationalisation evolution, it is extremely important to include their international sales performance, specifically at the local niche player stage. Based on the bubble size, such a classification is combined with different criteria in order to measure performance.

### 2.5.2.3 The international extension of the Mondragon Group co-operative principles (phase II-b)

Phase II methodological framework also includes a specific analysis of the main existing limitations and incentives for the international extension of the Mondragon Group co-operative principles. These items have been defined and gathered based on the interviews to the Mondragon directors working at the production plants abroad (the so called *expatriates*). The criteria used are based on mandatory sections 1, 2 and 6 of the questionnaire (see appendix I) including:

- Facilitations factors and incentives (section 6).
- Limitations and barriers (section 6).

- General understanding and trends (section 6).
- International management strategies and success factors (sections 1 and 2).

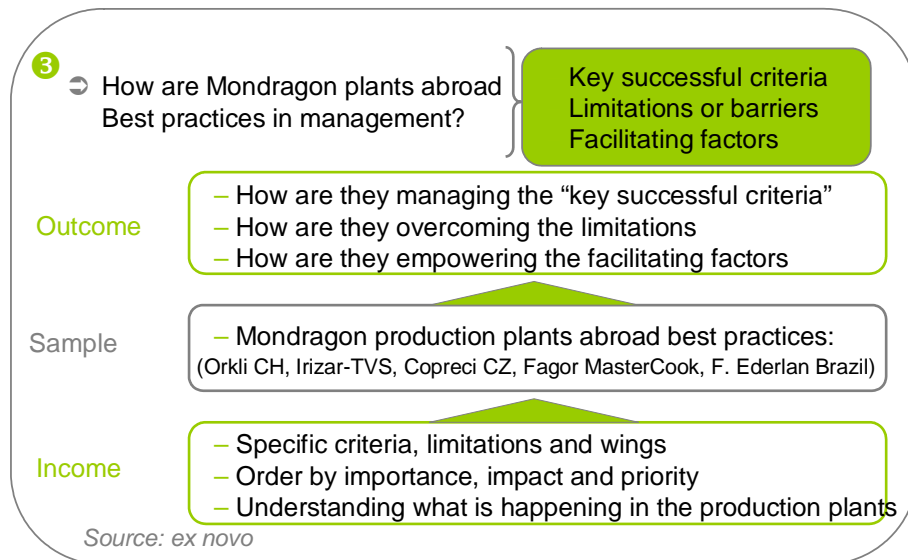
### 2.5.3 Data and methodology limitations

Previous to the data collection process, the following limitations are identified:

- The data to be obtained from the present survey will be mainly qualitative; thus, special attention has to be paid to this fact in order not to misunderstand the findings. Even more, the goal will not be to carry out a statistical inference of the weight results or indicators, in order to obtain conclusions about the overall population, but to enable an analytical generalisation that clarifies what is happening at the subsidiary plant.
- Following the previous statement, the results and the overall understanding will help to identify the best practices for the following phase, where certain “subsidiaries” are analysed more deeply as case studies.
- Once the pilot survey was done, two types of indicators or sections (mandatory, and non-mandatory) have been identified; and this also limits the overall analysis of the results. Hence, the grouping conclusions will be only possible to be carried out on production plant managers of Mondragon co-operatives as is featured in the empirical analysis (See chapters five and six).
- The diversity of profiles interviewed (previously described), has to be taken into account while interpreting the merged results and their quantitative and qualitative indicators. Overall conclusions combining the whole population will be carried out only in a qualitative way, not in a quantitative one.

## 2.6 PHASE III: CASE STUDIES - MANAGEMENT BEST PRACTICES

This section analyses some particular aspects of the case study methodology that has been used in this phase of the research. The general aspects examined previously will not be repeated (see 5.1).



**Figure 2.22:** Phase III: case studies of best practices

### 2.6.1 Phase III methodological framework

The case study database is compounded by six cases that have been identified as reliable to be analysed in more depth, in order to highlight and understand some of the best practices in CSR management coherent with co-operative philosophy within the Mondragon Group.

Case study	⇒ Coops involved	⇒ Location	⇒ Date
① Orkli CH	Orkli	CHINA - Ningbo	Jun 2006
② Irizar TVS	Irizar	INDIA-Tamil Nadu	Oct 2006
③ Ederlan Br	Fagor Ederlan	BRASIL - Extrema	Jan 2007
④ MasterCook	Fagor Electrodomesticos	POLAND - Wroclaw	Jun 2007
⑤ Copreci CZ	Copreci	CZECH R.	Jul 2007
⑥ Mondragon international clusters	Dikar Wingroup, Orbea, Orkli, Oiarso	CHINA - Kunshan	Nov 2006
	Irizar, Eika, Matz Erreka, Mondragon Assembly	MEXICO -Queretaro	Feb 2007
	Fagor Electrodomesticos, Tajo, Eika, Embega, Coinalde	POLAND - Wroclaw	Jun 2007
	Cikautxo, Fagor Ederlan, Maier, Batz, Copreci	CZECH R. Olomouc	July 2007

Source: *ex novo*

**Figure 2.23:** Phase III: case studies database

### 2.6.2 Case study sampling criteria

According to a dissertation undertaken by Kathleen Eisenhardt at Stanford University on “*building theory from case study research*”, though several criteria are used, some authors do not agree in their analysis on which case studies is to be used in the sample. The main criterion has to be previously defined according to the goal of the case study research, in that “the cases may be chosen to replicate previous cases or extend emergent theory, or they may be chosen to fill theoretical categories and provide examples or polar types. While the cases may be chosen randomly, random selection is neither necessary, nor even preferable” (Eisenhardt, 1988: 537).

Our aim is to identify and understand the best practices of the production plants management. Having an exploring focus, rather than a measuring or validating one, “the rationale for defining the research question is the same as it is in hypothesis-testing research. Without a research focus, it is easy to become overwhelmed by the volume of data” (Eisenhardt, 1988: 536). Therefore, our sampling criteria have to be taken rather from *hints* identified in previous phases of the research as potential best practices or

initiatives, and from the common criteria to measure their performance. Therefore, the criterion is definitively more “intuitive” than “deductive”.

An additional aspect was taken into consideration while defining the methodology for the sampling criteria. The final goal of the case study analysis will be not only to measure their impacts and synergies in between social and economic goals on production plants strategies that are operating in international markets, but also to use this best practice management practices to inspire other co-operative internationalisation process. Therefore, a decision has been made to add to the previous sampling criteria a new one: to reflect the wide reality of subsidiaries based on their local strategy, industrial division, size and expertise in internationalisation.

This last consideration will involve a twofold impact:

- It will be more difficult to compare the similarities or differences of the different case studies; their starting point might be completely different from one subsidiary reality to another
- The reliability and validity on the assessment of the final hypothesis approval or rejection will be more consistent; it will reflect a wide range of the subsidiary reality. In advance we may say that, if the sampling criteria does not consider so wide a reality of subsidiaries, it could be possible to accept or reject the hypothesis for specific circumstances (for example, in terms of subsidiary country or industrial sector).
- The best practices analysis, independent from the hypothesis final validation, will show some of the Mondragon Group best practices as part of their international subsidiaries variety and richness. It should be stated that, in order to avoid any misunderstanding, our goal is not to present a sampling of the Mondragon Group international production plants management practices, but rather to identify and understand certain best practices, and consequently to provide an inspirational reference to the international management strategy of other co-operatives.

This phase III final goal is to identify and describe the best practices in CSR management coherent with co-operative philosophy within the Mondragon Group. As Mintzberg states, “no matter how small our sample or what our interest, we have always

tried to go into organisations with a well-defined focus-to collect specific kinds of data systematically” (1979: 585).

### 2.6.3 Case study protocol and template

A template has been defined to be used as an analysis tool in each case study. The following sections are included:

- Parent co-operative understanding:
  - Motivation for international multi-localisation
  - Social and economic goals
- Subsidiary understanding:
  - Background and current situation
  - History and motivation
  - Employment analysis
  - Economic performance
  - Implementation process
- Subsidiary best practice analysis
- Conclusions and lessons learned

The following four dimensions to be measured and analysed have been identified:

- The economic goals and results vs. the social goals, commitments or results: this dimension is identified as the most important in order to accept or reject the main hypothesis, as will be explained in the following chapter.
- The global activity vs. the local activity: even if our unit of analysis is the subsidiary, there exists a twofold dimension or point of view, as a global co-op initiative or as a local company one.
- The weight and importance of such a twofold dimension depends on the degree of central integration and local autonomy of the subsidiary, according to the Ghoshal & Bartlett analysis (1989).
- Business strategy vs. activity indicators: during the data collection process some of the indicators and figures are related to a business or management strategy, whereas others are related to the results of the activity as indicators and ratios achieved.

According to Yin, case study research can involve qualitative data only, quantitative only, or both (Yin, 2003). Following the Eisenhardt approach (which is the one we have adopted), a “special note is the combining of qualitative with quantitative evidence” (Eisenhardt, 1988: 536). Moreover, the combination of data types can be highly synergistic. Quantitative evidence can indicate relationships which may not be salient to the researcher. “It also can keep researchers from being carried by vivid, but false, impressions in qualitative data, and it can bolster findings when it corroborates those findings from qualitative evidence” (Eisenhardt, 1988: 536). It follows an overview of the indicators and ratios that have been considered in each section of the case study template.

#### 2.6.3.1 Parent co-operative understanding

The goal is to understand the social and economic goals of the global co-ops as an international company operating in a global market<sup>51</sup>. Three figures with several indicators have been defined:

##### **a. Employment evolution and net job growth**

If we are to select one social commitment of the Mondragon co-operatives no doubt will be employment creation. These co-operatives have “a strong social commitment as the most important action, even if it has not been always recognised, a compulsive commitment to maintain and create employment” (Ormaechea 2006: 103).

Two dimensions have been studied, while analysing the commitment to co-operative employment, using the following ratios:

- The number of employees: it has been selected the annual total amount of employees as on 31 December, specifying where the employment takes place and examining the local environment (understood as Spain)<sup>52</sup> and the one abroad (out of Spain).

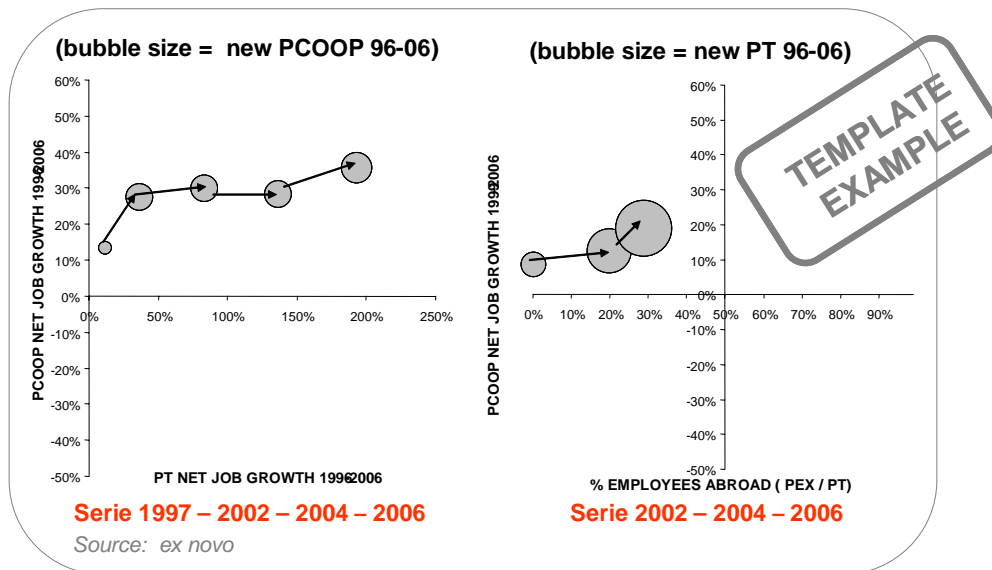
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<sup>51</sup> In some cases, such as that of Irizar, Fagor Ederlan and Fagor Electrodomésticos, the company has created a new organizational structure: the Irizar Group, the Fagor Ederlan Group and the Fagor Electrodomésticos Group; this represents the global co-operative. In other cases, due to early steps in their internationalisation process or business strategy, this has not been specifically defined: Copreci or Orkli.

<sup>52</sup> When considering the Mondragon Group co-operatives, we are required to assume their local commitment based in the *Alto Deba* valley and the closer environment. As the Mondragon Group mission states, the co-operative network has a strong commitment to the Basque Country. Because of this, it might



- The number of co-operative members: with the objective of identifying the degree of ownership and participation (property, results and management) within the corporation. It should be stated that no alternative property ownership has been rejected or put into practice at the Mondragon Group subsidiaries abroad<sup>53</sup>.
- Employment growth on the parent co-operative since 1999.
- Employment growth on the whole global co-op since 1999.



**Figure 2.24:** Template: net job growth (example)

### b. The internationalisation process and strategy

The next figure shows the key aspects of the internationalisation process of the global co-operative (fig. 2.25). The following ratios and charts have been selected:

- The positioning of “international sales / total sales” and “employees abroad / employees at the parent co-operative”: it measures the degree of internationalisation of the productive activity of the co-operatives and their sales internationalisation.
- The positioning of “international sales / total sales” and “international purchasing / total purchasing”: it measures the degree of

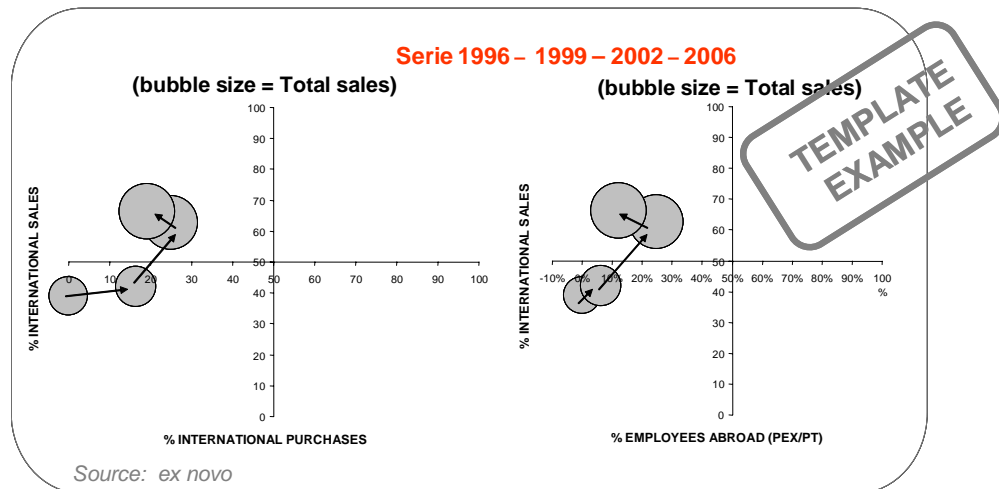
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be considered a mistake to evaluate their natural environment in the whole of Spain; but trying to separate regional, national and international dimensions might result in problems of data collection.

<sup>53</sup> There exists an example and best practice experience that will be analysed, specifically carried out in the Eroski Group GESPA project, while operating in the Spanish market. It is also important to reflect that the co-op membership not only reflects ownership but a triple participation within the corporation: management, results and ownership. In this broader vision, also the Irizar Group international management assumes a local people participation in profit distribution and management.

internationalisation of the purchasing activity and the correlation with international sales.

These figures are presented in four concrete historical moments (1996, 1999, 2002 and 2006) of the co-operative international strategy.



**Figure 2.25:** Template: globalisation path (example)

### c. Economic and social indicator performance

At the beginning of the Mondragon co-operative experience, ratios such as “annual profits” or “revenues to co-operative members” were not defined, and their main economic goals used were “sales by number of employees”, “total sales” or “international sales”:

	1996	1999	2002	2006
<b>PT</b>	6,675	8,287	12,402	17,519
<b>PEX</b>	635	1,494	4,169	9,695
<b>% PEX / PT</b>	9.51%	18.03%	33.62%	55.34%
<b>TOTAL SALES</b>	700,647	1,089,124	1,552,671	2,605,393
<b>% INTER SALES</b>	40.99%	44.76%	52.86%	64.58%

Source: *ex novo*

**Figure 2.26:** Template: global co-ops performance (example)

For the present research the following global activity indicators have been selected:

- Total sales and growth
- International sales
- The Mondragon Group internationalisation ratio

- International production measured by number of employees abroad over total employees (PEX/PT)

2.6.3.2 Subsidiary understanding

The following section presents a deeper understanding of the subsidiary activity and the original motivation for establishing the production plant abroad:

**a. The subsidiary activity**

An overall understanding of what is the current activity of the subsidiary, explained in an activity matrix (similar to China Swiss Survey 2005)<sup>54</sup>.

It measures:

- The activity: Purchasing (for own local activity, parent activity and/or third party), selling (parent co-operative, local market, international markets, and other factories within the global co-op) and/or producing.
- The market orientation: B2B (industrial components, industrial machinery, raw material and/or services) and B2C (consumer goods or/and services).

The following chart presents an example of how the template will be completed.

		B2B				B2C	
		Industrial components	Industrial equipment	Raw material	Services	Consumer goods	Services
Producing			✓				
Purchasing	For own country operations	✓	✓	✓			
	For parent cooperative						
	For third party						
Selling	Parent cooperative						
	Local market		✓				
	International markets		✓				
	Other plants						

Source: ex novo. Adaptation from CH-ina 2005

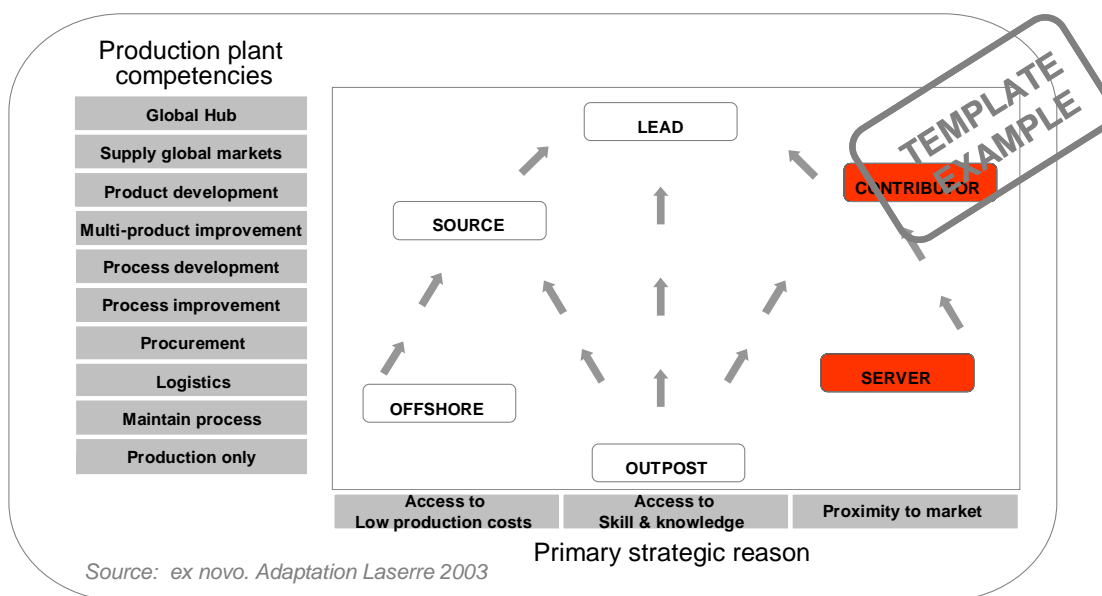
**Figure 2.27:** Template: subsidiary activity (example)

**b. The corporation original motivation for establishing the subsidiary**

<sup>54</sup> N. MUSY et al. (ed.) 2005.

This figure is reliable when analysing co-operative strategy abroad. The Mondragon Group international strategy, generally, has not been due to a conquest of new markets in order to make more profit, but rather as a reactionary process to preserve employment in the local environment of the co-operative now and for the future.

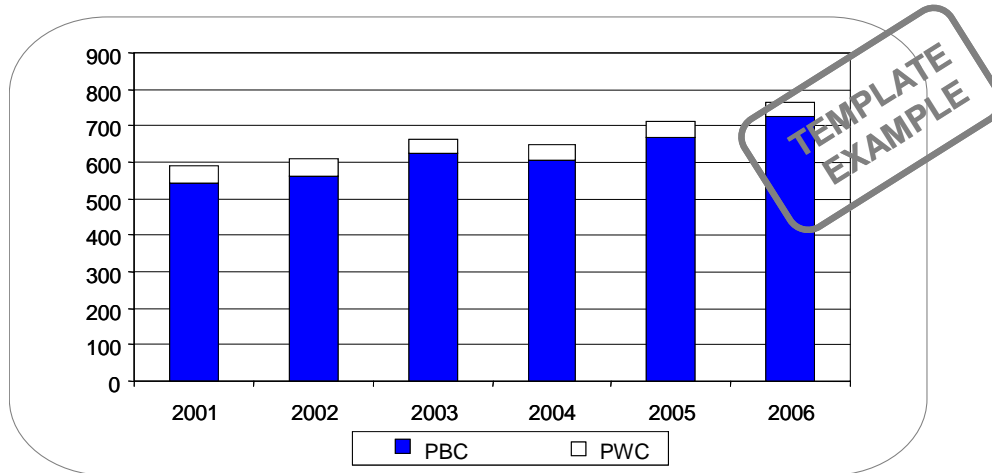
Using Ferdows' "*Strategic roles of international factories and their evolution*", matrix (Laserre, 2005: 244), we will analyse more deeply our best practices case studies, in which strategic original motivation was behind the international production plant activity (fig. 2.28).



**Figure 2.28:** Template: subsidiary original motivation (example)

### 2.6.3.3 The subsidiary social commitment

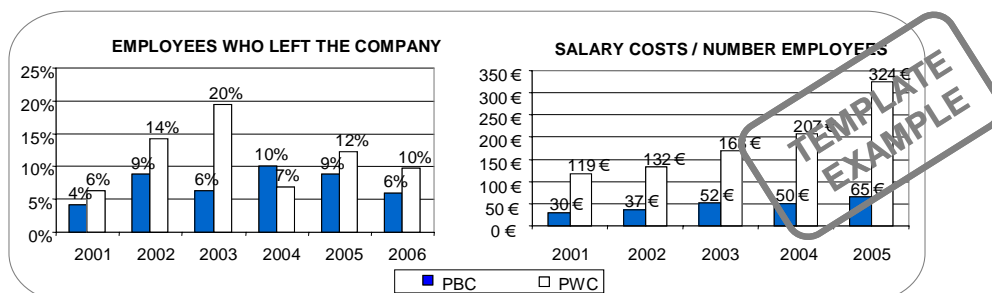
The analysis of the social commitment of the production plants abroad might have several objectives and criteria; however, following the international consistency of principles in the Mondragon Group co-operative, if any social commitment is likely to emerge, this will be the employment creation. And it is probably the most important debate to decide for the Mondragon Group internationalisation process. Is there a social element to the strategy abroad?, and if so, which is the form that it takes: a commitment to job creation?, employment conditions?, and / or employee participation? Here our objective is to justify why we have selected the following ratios and figures as Mondragon co-operative subsidiary social commitment indicators.



**Figure 2.29:** Template: Number of employees 31/12 (example)

When analysing the social commitment to employment, the following indicators have been defined:

- **Employment creation:** based on the number of employees as at 31 December, and specifying the type of employment in three categories (expatriate, white collar, and blue collar) (fig. 2.29).
- **Employment cost:** based on the total annual amount as at 31 December, and specifying the cost of each type of employment in the previous categories (expatriate, local white collar and local blue collar).
- **Annual salary level:** comparing the average annual salary for blue collar and white collar. (Result of “total salary cost/ number of employees”) (fig. 2.30).
- **Rotation ratio:** the number of employees who left annually the production plant (December the 31<sup>st</sup>), and specifying the type of employment in the same previous categories (expatriate, white collar, and blue collar) (fig. 2.30).
- As previously highlighted, employment commitment is the main focus.

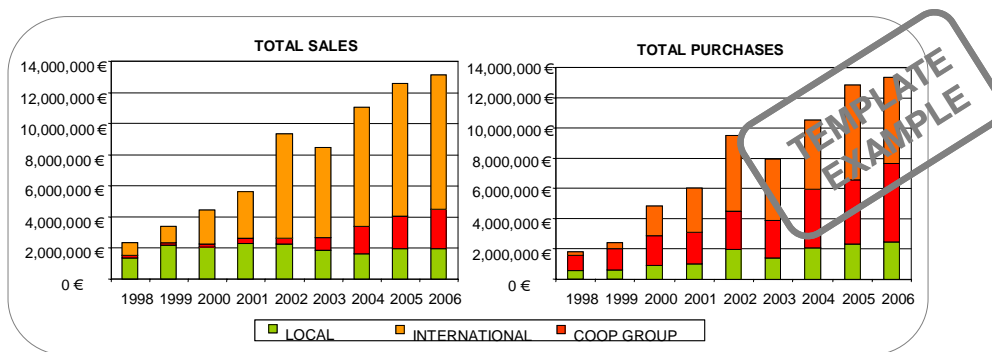


**Figure 2.30:** Template: people management HR (example)

In general terms, no other social commitment indicator (education, health, culture or social integration) has been identified in the production plants abroad<sup>55</sup>.

#### 2.6.3.4 The subsidiary economic commitment

When analysing subsidiary economic commitment, the decision has been taken for combining similar ratios used previously in co-operative global activity and the specific ones adapted to the economic activity of subsidiaries and also the role within the co-operative overall strategy.



**Figure 2.31:** Template: Economic activity (example)

As shown in the previous chart, the indicators used for each production plant abroad as regards the economic commitment are as follows:

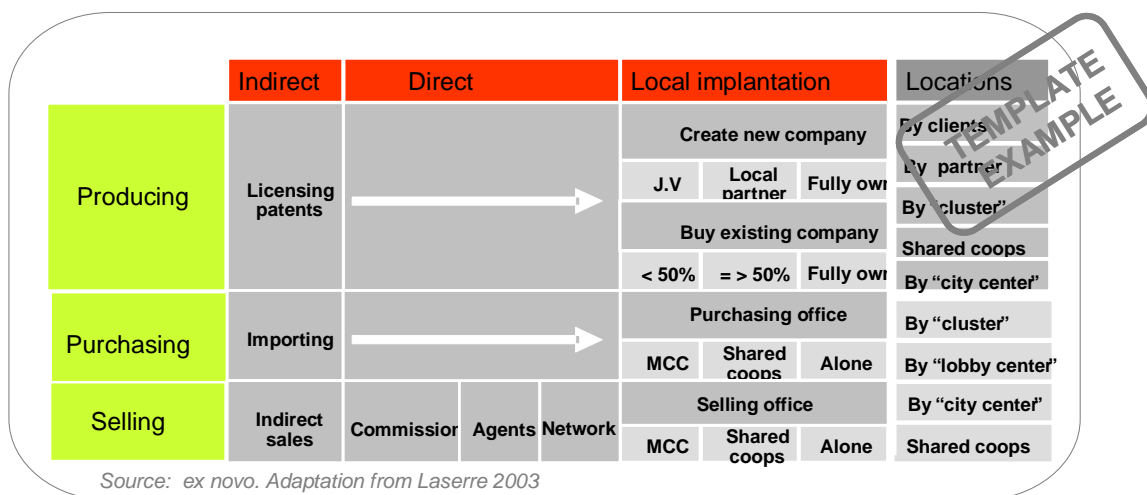
- **Sales activity:** based on accounting department annual records (December the 31<sup>st</sup>), and specifying the sales amount in three categories:
  - Group selling: sales to the parent co-operative and to other subsidiaries abroad.
  - International sales: sales to international customers located in countries different from that where the production plant is placed.
  - Local sales: sales carried out in the production plant local market, regardless of whether to local customers or to MNEs.
- **Local purchasing activity:** based on accounting department annual records (December the 31<sup>st</sup>), and specifying the purchasing amount in the same previous categories (group selling, international purchasing, and local purchasing).

<sup>55</sup> Some exceptions such as Fagor Ederlan or Irizar are found, and consequently analysed in phase III as best practices.

We test and analyse the possibility of specifying the purchasing and selling activity within the Mondragon Group (subsidiaries and/or co-operatives); however until know the amounts were residual in almost all the production plants abroad. This lack of inter-group cross sales and purchases is due to the present situation.

### 2.6.3.5 The subsidiary implementation process

Here we arrive at one of the most studied aspects of internationalisation strategy or the strategy of the production plants abroad<sup>56</sup>. The reason for such a prolific academic analysis is obvious; however, this understanding might help or in many cases be the reason for success or not success on subsidiary activity. For this reason not only the current positioning according to the following template has been included, but also the subsidiary historical evolution.



**Figure 2.32:** Template: subsidiary implementation process (example)

As can be noted above, the chart combines three main topics:

- **Subsidiary activity:** divided in the same criteria used previously (see figure 2.33): producing, purchasing, and selling.
- **Approach or commitment to the international market:** indirect, direct, and local implantation
- **Locations:** which criteria took place to establish the subsidiary abroad:

<sup>56</sup> J. FERNANDEZ 2005, FERDOWS 1997, P. LASERRE 2003, N. MUSY 2005.

- Production plant. The following possibilities have been included: by customer, by partner, by cluster, shared co-operatives, and by city centre. These categories are not exclusive, and in many cases there is a combination of them; nonetheless, they help us to understand not only the criteria and location strategy but also the evolution of the subsidiary location.
  - Purchasing or selling: in this case the following possibilities or criteria have been identified: by cluster, lobby centre, city centre, and shared co-operatives.
- **Time:** in a certain sense the time is reflected in the matrix (from the left to the right), representing the subsidiary strategy evolution and commitment. However, this fact is not assumed, as there is not a certain evolution process itself and in some aspects it might be a different one. The reason for including this fourth factor is because we will analyse the subsidiary positioning in different years, those closely related to their strategic phase.

#### 2.6.3.6 Co-operative subsidiary best practices analysis

The best practices selected have been identified in phase II of the study. But during the data collection phase an open approach has been followed, avoiding constraints beforehand in order to enhance the exploring process of the research, even though it might have caused some overlap. As has been remarked, “a striking feature of research in building theory from case studies is the frequent overlap of data analysis with data collection. For example, Glaser and Strauss (1967) argue in favour of joint collection, coding, and analysis of data. While many researchers do not achieve this degree of overlap most maintain some overlap” (Eisenhardt, 1988: 538).

In our case we will not look for overlapping as a strategy; hence, we have selected some reliable fields of success. However, during the best practices analysis we have not taken measures to avoid it, for “overlapping data analysis with data collection not only gives the researcher a head start in analysis but, more importantly, allows researchers to take advantage of flexible data collection. Indeed, a key feature of theory-building case research is the freedom to make adjustments during the data collection process. These



adjustments can be the addition of cases to probe the particular themes which emerge” (Eisenhardt, 1988: 539).

The *a priori* selected best practices to analyse are highlighted in this chart:

- ⇒ Strategic vision, step by step (Danobat China)
  - ⇒ Proactive strategy: control local competitors development (Orkli China)
  - ⇒ People management and training compromise ( Danobat China)
  - ⇒ People centre management model: communication (Irizar TVS)
  - ⇒ MCC Inter-cooperation: driven shared location (Kunshan project)
  - ⇒ MCC Inter-cooperation: natural shared location (Queretano group)
  - ⇒ Local management and “local property participation”: (Copreci Cz)
  - ⇒ Local Management participation: (Wrozamet)
  - ⇒ ...
- Source: ex novo*

**Figure 2.33:** The Mondragon Group best practices identified

This procedure, far from being unfocused, helps to be open and sensible while capturing as much information as plausible.

The best practices will be organised and measured according to the following template of the co-operative best practice analysis:

Social meaning	⇒ Management practices focused on	⇒ Assumed
Social objectives	Education, social integration, consumer defense, culture, sports, ...	YES / NO
Working conditions	Working hours, hygiene, risk management, TQM, clean & order, ...	YES / NO
Workers participation	Equity ownership, Profits, management, psychological, ...	YES / NO
Inter-cooperation	In between Mondragon, in between coops, Common funds, location, workers,...	YES / NO
Bottom of the pyramid	Social innovation, stakeholders presence, local commitment, ...	YES / NO
Communication	In the subsidiary, Parent cooperative - subsidiary, stakeholders,...	YES / NO

*Source: ex novo*

**Figure 2.34:** Best practices in social commitment

The fields, in which management practices are focused, according to the previous chart, will help to understand the production plant impact of the management practices, the said impact on co-operative principles. Nevertheless and in accordance with the

previous statements, a data analysis and data collection overlapping might modify our original understanding. “These alterations create an important question: Is it legitimate to alter and even add data collection methods during the study? For theory building research, the answer is “yes”, because investigators are trying to understand each case individually and in as much depth as is feasible” (Eisenhardt, 1988: 539).

In this specific field (best practices description) of the research, data collection alteration is allowed. Though it will remain an exception over the rest of the phase III, on case study methodology Yin’s approach and procedure are of significant relevance, as “an exploratory case study should be preceded by statements about (a) what is to be explored, (b) the purpose of the exploration, and (c) the criteria by which the exploration will be judged successful” (Yin 1984).

For the best practices description, the *a priori* goal and focus will be adapted, taking into consideration what one discovers while analysing each best practices reality, following the Eisenhardt final reflection on data collection procedure<sup>57</sup>.

#### 2.6.3.7 The current situation and future trends

This section will analyse also qualitative aspects related to the subsidiary current strategy, as well as the opportunities and threats they might have to face in the coming future. The widely referenced “SWOT analysis” (Strengths, Weaknesses, Opportunities and Threats) has been selected from a bigger list in order to examine the company strategic analysis<sup>58</sup>.

In contemporary society, this traditional business strategy analysis tool keeps adding value to the globalisation process of companies: “SWOT ... is a very effective way of identifying strengths and weaknesses, and of examining the impact of globalisation on

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<sup>57</sup> Eisenhardt states “The goal is not to produce summary statistics about a set of observations. Thus, if a new data collection opportunity arises or if a new line of thinking emerges during the research, it makes sense to take advantage by altering data collection, if such an alteration is likely to better ground the theory or to provide new theoretical insight. This flexibility is not a license to be unsystematic. Rather, this flexibility is controlled opportunism in which researchers take advantage of the uniqueness of a specific case and the emergence of new themes to improve resultant theory” (Eisenhardt, 1988: 539).

<sup>58</sup> For instance, the five forces model (Porter 1980), industry analysis (Thompson and Strickland 1998), business definition (Abell 1980), and strategic group maps (Hitt, Ireland, and Hoskisson 1999).

entrepreneurial enterprises opportunities and threats a company or an industry faces” (Kumar and Liu, 2005: 58).

In the present research a SWOT analysis will be conducted for every subsidiary current strategy. The data collection process will be based on a personal interview with the production plant director where the chart will be prepared. Afterwards, this analysis will be explored and discussed with the parent co-operative general manager, internationalisation manager, or any member of the board of directors who will be considered the most suitable for this analysis.

The researcher will become involved in this process, suggesting some areas of analysis with the aim of reviewing the whole subsidiary’s strategy, though the positioning will be always defined by the interviewee. The inclusion of the SWOT analysis, as well as other best practices information, should be approved by each parent co-operative, although is possible that it will not be included on the document, due to confidentiality.

## 2.7 SOURCES OF INFORMATION

In this research project contrasting sources of information will be analysed. On one hand, the so-called secondary sources: findings from articles, academic research and theoretical studies in general, and specifically co-operatives financial reports and management statements, as well as the Mondragon Group Headquarters annual reports. As this will be mainly quantitative information, it will serve mainly for statistical analysis.

On the other, there will be used primary source extracts from direct observations and interviews carried out directly in the co-operatives and at their subsidiaries abroad. This information must be qualitative; nevertheless, it will be measured according to set standards in order to be quantified and compared.

### 2.7.1 Primary and secondary sources

#### 2.7.1.1 Primary source

Based on the profile of the research project and on the hypothesis subject to evaluation, we will work with two different types of information: the one that measures the economic success and that which measures the social. Therefore, diverse indicators will be used in order to extract conclusions. The methodology to be used will be based on international patterns and will follow international standards. Using them as ground material, a particular indicator framework will be defined in order to measure the specific facts of the research. To compare co-operative groups and geographic locations and countries the same profile is used.

#### 2.7.1.2 Secondary source:

This source will be used mainly in two different aspects or activities of the research project. Firstly, in order to define the theoretical framework where the project is located, articles, publications and other research studies will be used to review the area in the field of co-operatives, social enterprises, global strategic management, and globalisation. Secondly, we will use historical information which has been already collected by the co-operatives in their annual reports. Specifically, we will use the

Mondragon Group Headquarters annual reports, and their historical employment generation and economic performance statistically analysed.

### **2.7.2 Quantitative and qualitative information**

As previously referred, the current research project will work with quantitative and qualitative information. The quantitative is closely related to the already mentioned phase I: historical data analysis, based on the Mondragon Group Headquarters annual reports and on the number of employees, as well as the number of co-operative members and their analysis, depending on their geographical location, co-operative group, industrial sector and period. Certain quantitative information on phase II and III will also be analysed. The main source of this quantitative information will be associated with internal corporation reports (annual activity report, EFQM report).

The qualitative source of information is strongly related to the primary source and will measure social and economic objectives, as well as results related to co-operative management, strategy and human resources. This qualitative information will be standardised and measured by several indicators. These will be used in order to compare and extract some conclusions, though confront with their nature they will never be used as quantitative information. Any statistical treatment carried out of these indicators, if taken as quantitative values, will be a misunderstanding of the information essence and origin. Nevertheless, this information has the possibility of having some use for statistical quantitative analysis in future research projects that follow the same methodology and collection procedure.

### **2.7.3 Methodology sources of information**

The overall survey protocol, topics and indicators included in the questionnaire have been prepared relying the following studies and research that deal out on similar or related topics. Originally, the goal was to replicate other studies carried out on the same topic; however, we are conscious that due to the peculiarities of our research, in order to arrive to valuable results we have to combine the different proposal of the previous studies. But the intention is to follow a standard data collection process, one that will

enable us to compare our results and findings with future investigations. These are the main items considered at this point of the research:

- China Swiss Survey 2005: an empirical study conducted by Swiss companies based in China<sup>59</sup>. (Related to sections 1 and 2).
- China CEO: an analysis on multinational manager personal interviews, conducted by Professor Fernández from CEIBS University in 2005. (Related to sections 1 & 2).
- Harvard Business Review on corporate responsibility: an assessment of the most reliable CSR theories, it includes author methodologies such as those of Martin, Haydn, Porter, Kaibu. (Related to sections 4 and 7).
- Developing a management model for the Mondragon Group internationalisation process, conducted by UPV/EHU and coordinated by professor Errasti.
- CSR guidelines (EFQM, GRI and ISO26000) and methodology developed by Xertatu of the Biscay Regional Government (Xertatu, 2006) and social auditing methodology developed by REAS (Ballesteros and Del Río, 2004).
- Internationalisation best practices, “Learning community: Internationalisation I & II”<sup>60</sup>, conducted by the Mondragon Group International department in 2003 based on Mondragon co-operative initiatives.
- The International Co-operative Strategic Framework (*Marco Estratégico Cooperativo Internacionalización, MECI*) 2004-2008
- International strategy and global corporation: Laserre 2005, Goshall & Bartlett 1989, etc.
- Work democratic organisation and employees’ participation: Malone 2004, Ugarte 2004, Jones and Kato 1995 and 2003.

#### 2.7.4 Case study sources of information

Case study methodology is especially recommended in the case of multiple sources of information. In this research, the following sources are used with the aim of approaching certain facts as regards the “subsidiary” from several points of view, seeking to avoid a subjective misunderstanding, for “the triangulation made possible by

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<sup>59</sup> N. MUSY 2005 (ed.).

<sup>60</sup> MCC Comunidades de aprendizaje, “*Internacionalización I*” (2003a) and “*Internacionalización II*” (2003b).

multiple data collection methods provides stronger substantiation of construct and hypotheses” (Eisenhardt, 1988: 538). The sources that have been used are as follows:

#### 2.7.4.1 Previous research projects and other secondary sources

For every case study a bibliographical analysis has been carried out in order to find out previous studies and understanding of the co-operative. The research has been prepared based on the parent co-operative. For certain cases some description or analysis of the subsidiary activity has been found<sup>61</sup>. The sources used in each case have been specifically referred to.

#### 2.7.4.2 Parent co-operative and subsidiary archives and accounts

As may be seen in the case study templates, several indicators and ratios are related to subsidiary and parent co-operative annual economic and employment results. During the research process we sought to identify a single source of information to serve as a common reference to be used in each case study. We discovered that such a singular reliable source of information is non-existent. Therefore, we decided to use three sources of information to unify criteria and for selecting them, based on a triangulation process. The sources used are:

- Parent co-operative archives: in each case study the global activity annual review and historical results (figures 2.26, 2.27 and 2.28) have been requested from the general board, and from the accounting and HR departments. The co-operative activity annual report was also analysed.
- Subsidiary archives and internal data: in each case the local activity annual review and historical results (figures 2.29 and 2.30) have been requested from the subsidiary manager, and from the accounting and HR departments. It should be noted that in many cases we discovered that this was the first time some indicators had been requested; therefore a certain lack of information is a drawback when analysing the first years of subsidiary activity.

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<sup>61</sup> There are mainly two references. The first is the recent publication of “Co-operatives, Globalisation and Relocation” by I. IRIZAR, 2006, in which an analysis could be found on several co-operative international strategies carried out by executives of the parent co-operative and some subsidiary managers. The second reference is related to UPV-EHU research, focused on the MCC co-operative internationalisation process conducted by A.M. ERRASTI.

- The Mondragon Group annual report: the annual report, where the overall co-operative results are brought together, was analysed to explore the information.

Because of the differences in the results or numbers provided by the different sources, these are the main sources criteria needed to unify for each case:

- For local activity indicators (figures 2.26, 2.27 and 2.28) the prevalent source was the one provided by the subsidiary departments.
- For global co-op indicators (figures 2.29 and 2.30) the prevalent source of information was that provided by the parent co-operative departments.
- For industrial division indicators the prevalent source was the Mondragon Group annual report.
- In the case of a lack of information, in certain sources what was available was used, regardless of which source prevailed (in the cases of a special reference on the case study report).

#### 2.7.4.3 Personal interviews

A special effort has been made to understand the day-to-day activity of the subsidiaries. The protocol used at the interviews was as follows:

- The researcher visits the factory and the environment where the subsidiary is operating. This has been done at least once and in most cases twice, remaining there a few working days while conducting interviews for direct observation, lunch within the factory daily activity (if applied), and meetings with the staff.
- Then interviews were held with every employee, regardless of the role, and also with the local people (all in all interviews were held with white collar and blue collar employees). The interviews with non-English speakers were conducted in their mother tongue, using an interpreter when needed. At least one interview was conducted to each type of employee (expatriate, blue collar, white collar). As an average 10 interviews were conducted within each case study.
- The methodology was that of an open interview, adapting the information to the profile of the person interviewed. The questionnaire utilised in phase II was the tool used also here, when the type of interview made it possible.



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- In order to configure the indicators, a personal interview and analysis was made with the subsidiary manager, positioning the history of the local activity of the subsidiary (figures 2.31, 2.32, 2.33, 2.34 and 2.36).
  - A final validation interview was conducted, once the case study report was completed, with the co-operative general manager and subsidiary manager; this was done in order to contribute to the proper understanding and to the conclusions of the analysis performed.
  - While analysing the environment and the country reality and culture where the subsidiary operates, a special personal effort has been made to avoid cultural misunderstandings as much as possible. In the case of the researcher, this was secured by overall visits as follows:
    - China: visited four times, the first one on 2003 and the last one finished on December 2006. A total duration of 11 months in the country, having visited places such as: Shanghai and its immediate area (Ningbo, Kunshan, Hanzhou and Suzhou), Anhui province, Hubei province, Guangdong province (Hong Kong, Zhuhai, Macau, Guangzhou and Shenzhen), Gansu province, Hunan province, Beijing, Tianjin, and Qingdao.
    - India: visited three times, the first one in 2001 and the last one on November 2006. A total duration of eight months in the country allowed the visiting of places such as: Kolkata, New Delhi, Chennai, Kerala, Mumbai, Rajasthan, Tamil Nadu, Bangalore, and Pune.
    - South East Asia: visited four times, the first one in 2003 and the last one in 2006. A total duration of four months enabled visits to places such as: Thailand, Malaysia, and Indonesia.
    - Mexico & Brazil: visited once in 2007. A total duration of seven weeks, with visits to: Sao Paulo, Botucatu, Taubate, Mina Gerais, Rio de Janeiro, Mexico City, Queretaro, Guadalajara, Mérida, and San Luis de Potosi.
    - East Central Europe: a total duration of two months allowed the visiting of places such as: Poland (Warsaw, Wrocław and Katowice), the Czech Republic (Prague, Olomouc, Ostrava, and the Moravia province), the Slovak Republic (Nové Zamki and Žiar nad Hronom)

- Russia and Turkey: a total duration of one month with a visit to Moscow, Saint Petersburg, Kazan, and Istanbul.

#### 2.7.4.4 Direct observation

This source of information is one of the most reliable for the understanding of the contemporary circumstances at the subsidiaries in the context of their environment. Few tools were identified, in order to have a common layout to build up conclusions, though all were reliable and sufficiently solid. The researcher was able to realise what was going on in the factory during the visits, meeting the employees and sharing time with them. All this direct observation helped to identify where to focus, and what to ask and when. This information will not be considered as a measurable source of information in the research project due to its lack of solid gathering methodology. Finally, “theory-building researchers typically combine multiple data collection methods. While interviews, observations, and archival sources are particularly common, inductive researchers are not confined to these choices” (Eisenhardt, 1988: 537).

## PART TWO: EMPIRICAL STUDY AND CONCLUSIONS

“It’s better to light a match than to curse the dark”<sup>62</sup>

Rev. Arizmendiarrreta

### Introduction

Before entering into the empirical analysis of our research project, it might be useful to state briefly what was mentioned in the previous chapters.

In chapter 1 the research theoretical framework has been presented, and also the main hypothesis. Besides, the main theories have been considered, and the previous research conclusions as follows:

- The impact of globalisation in developing countries (Karnani 2006, Giner and Aranzadi 1964, Sachs, Stiglitz)
- Place-based companies as a counterforce to the de-localisation threat on communities in developed countries (Williamson, Imbroscio and Alperovitz 2002),
- Multi-localisation, de-localisation and the FDI impact on parent company local jobs (Barba Navaretti 2004, 2006)
- The impact of globalisation on co-operative structure (Cote, Spear, Chaves)
- The Mondragon Group and globalisation (Errasti, Irizar, Cheney, McLeod, Clamp, Bakaikoa, Vanek)

In chapter 2 we explained the methodological framework to be used in the research project for answering and validating the research hypothesis and the objectives defined.

Once the theoretical review has been stated, the research project objectives and the methodology defined, it is the moment to cover the fieldwork and to present the conclusions obtained. This second part, the empirical study and conclusions, will be divided into five chapters, related to the fieldwork analysis.

The first one of these, chapter 3, deals with the secondary sources available, and reviews systematically the Mondragon Group and its globalisation, including history,

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<sup>62</sup> In J. RETEGUI 1995, “Encender, sino más, una cerilla en la oscuridad más que maldecirla”.

strategic objectives, main impacts and current challenges. In chapter 4, the phase I fieldwork will be presented, as based on Mondragon historical archival analysis and answering the question of “What is happening” in the context of Mondragon employment creation (1999-2006) and for the impact of globalisation thereon. The chapter 5 and 6 will answer the question “How are Mondragon global co-ops heading into the Mondragon globalisation process”. Chapter 7 will cover the discussion on “How Mondragon subsidiaries abroad are trying to implement co-operative principles with non-co-operative structures”; the analysis will be based on six case studies of Mondragon production plants abroad, once they have been identified as “best practices in management” for worker co-operatives.

Chapter 8 will present the overall conclusions.

## CHAPTER 3: THE MONDRAGON GROUP AND GLOBALISATION. PHASE 0

### 3.1 HISTORICAL BACKGROUND

In 1956 in Mondragon, a local village in the Basque Country, five well-prepared young men, lead by a local priest Jose Maria Arizmendiarreta sought to create a “new type of enterprise, coherent with Christian social doctrine” (Aranzadi, 1976: 423). The result was Fagor Electrodomésticos<sup>63</sup>, the first co-operative of the current Mondragon Group.

MAIN FACTS	2002	2003	2004	2005	2006
Total Sales	9,232	9,655	10,459	11,859	13,390
International Sales	2,455	2,551	2,756	3,539	4,346
Intermediated financial resources *	8,474	9,247	10,042	11,036	12,333
Own Assets	3,102	3,281	3,757	4,226	4,696
Investments	683	847	730	866	1,243
Profits	370	410	502	545	677
Workforce at end year	66,558	68,260	70,884	78,455	83,601
Industrial Division Total Sales	4,049	4,379	4,792	5,760	6,876
Industrial Division International Sales	2,058	2,152	2,358	3,136	3,896
Workforce at end year	31,166	32,597	33,640	40,121	42,444

Source: adaptation from MCC Annual Reports 2002 – 2006 (\*) Caja Laboral

**Figure 3.1:** The Mondragon Group activity main facts 2002-2006

From the outset the Mondragon Group was an “experience” of a continuously-evolving structure; in 1958, when the gas heaters production grow, the concern for finding a definitive model and the proper legal structure was increased. Ormaechea said that the objective 50 years ago was not to create a co-operative, but a “total enterprise”, or a participatory enterprise<sup>64</sup>. According to Clamp (2003: 4-31), the Mondragon Group history might be divided into the following phases:

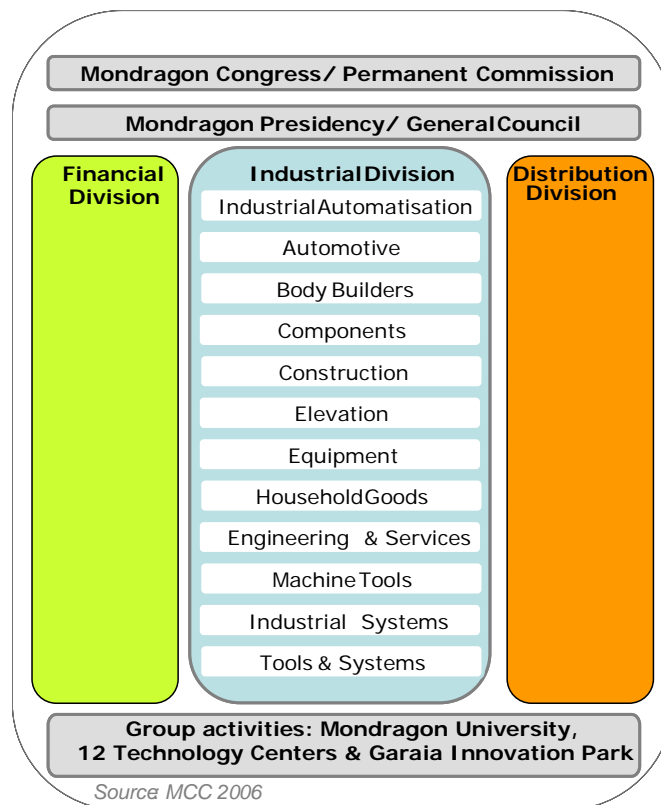
- Phase 1: The start-up (1941-1956) out of the ashes of the civil war.
- Phase 2: The creation of the Mondragon Group (1956-1965), with its values originating a new vision.

<sup>63</sup> The first name was ULGOR, using the initials of the five co-founders (Usatorre, Larrañaga, Gorroñoigoitia, Ortubai and Ormaechea).

<sup>64</sup> “We did not set out to create a co-operative; we wanted to make a total company, a participatory company, where by working the workers shared in the rights, responsibilities and profits of the company, where the entrepreneur also shared in the rights, responsibilities and profits, and where capital, due to its financial contribution would also have certain rights, responsibilities and benefits. A total company would resemble an arch, in which the columns rose on the right and on the left and the keystone was supported by labour” (Ormaechea, 2006: 112).

- Phase 3: The glory years (1965-1980).
- Phase 4: The recession years and reorganisation (1980-1990).
- Phase 5: The internationalisation of the MCC (1990-present).

During the last 50 years the so-called Mondragon co-operative experience has evolved by adapting co-operative activity to economic changes, assuring a successful market strategy (fig. 3.1), but at the same time remaining as a faithful group to the co-operative principles of the International Co-operative Alliance (MacPherson, 1995); this regards the parent co-operatives.



**Figure 3.2:** The Mondragon Group structure

In contemporary times, Mondragon Group activity is divided into three main divisions: the industrial sector (twelve different divisions based on their industrial activity), the finance sector (Caja Laboral and Lagun Aro) and the distribution sector (Eroski) (fig. 3.2).

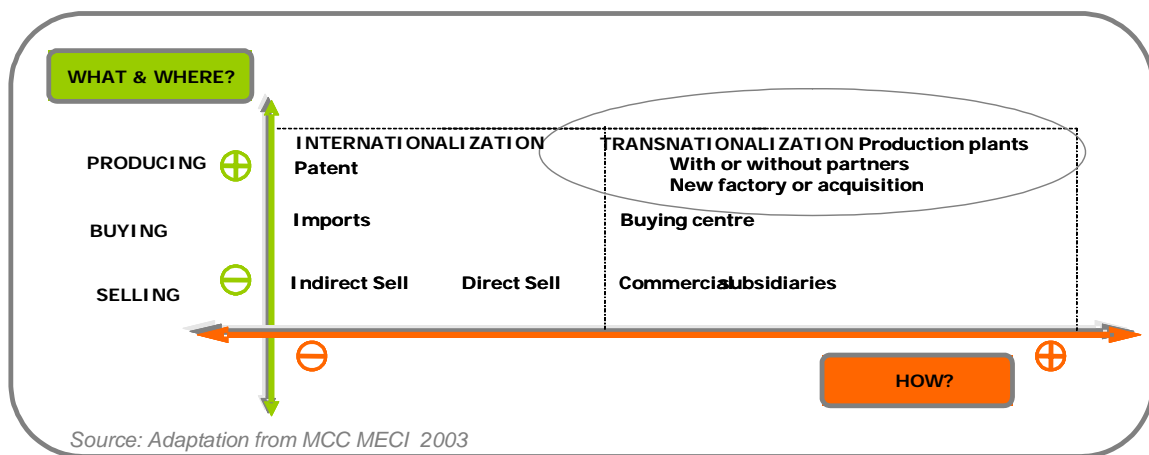
The co-operative group also includes support services co-operatives: their own university (Mondragon Unibertsitatea) and educational establishments, 12 technology

centres (among others Ikerlan and Ideko), a business incubator (Saiolan), a consultancy (LKS) and a science and innovation park (Garaia Innovation Park)<sup>65</sup>.

## 3.2 THE MONDRAGON GROUP GLOBALISATION STRATEGY

### 3.2.1 Reasons to move abroad

Mondragon co-operatives, in order to remain competitive, have followed a traditional internationalisation process: firstly to acquire product specifications and patent rights, secondly to access to new customers and suppliers abroad, and thirdly (and latterly) to produce in foreign countries.



**Figure 3.3:** The Mondragon Group globalisation path

From the very beginning, Mondragon has boasted an international perspective<sup>66</sup>. In 1974-75 Ormaechea became the first player to push a small team (Lekuona and Perrot) from Caja Laboral into internationalisation. Afterwards, Javier Mongelos<sup>67</sup> encouraged co-operatives to reach markets abroad: his main motivation came from the great dependency that Fagor Electrodomésticos had on the Spanish market. In 1984-85 the

<sup>65</sup> Garaia Innovation Park is one of the latest strategic projects of the MCC. It will promote collaboration between the university, technology centres and companies, based on a long-term research framework of technological innovation and will foster the introduction of new technologies, promoting the creation of qualified jobs, new companies and the diversification of the economy. It will be a science and innovation park (with more than 250,000 square meters of construction) that will be used and shared by “technological centres”, “R&D co-operative units”, “university research labs”, “researcher residences” and floor space for “conferences and events”.

<sup>66</sup> It is common to hear from J. M. Ormaechea, the story of the very first international mission that was instigated by the Ulgor founders, with a trip to Europe and Italy searching for gas heater product specifications and patent agreements in 1957.

<sup>67</sup> Javier Mongelos was General Manager of the Fagor Group for 15 years, and from 1992-1996 the President of the Mondragon Group General Council.

Ularco Group, (created as a multilateral project in 1964, later becoming the Fagor Group) led by Jesus Larrañaga<sup>68</sup>, created an international operations department. Without a specific strategic plan, the goal was to reach the European market through “strategic bridge heads” in France, Germany and Italy. During 1984 and 1985 two turnkey factories were sold abroad (Copreci Chile and Fagor Electrodomésticos China). Fagor Electrodomésticos created a branch in Hong Kong to purchase from Hong Kong itself and from Taiwan. In 1986 a United States commercial subsidiary was established to open doorways to the North American market. Until that moment all were sales representative initiatives; however, at the end of 1987 an international productive subsidiary was needed.

Contrary to what might be thought, the first steps of the Mondragon Group international strategy did not enjoy a strategic plan or the benefit of a global co-operative debate<sup>69</sup>. The current Mondragon Group international department director affirms “if we (the organisation) could have maintained our business here, we would not have moved abroad”<sup>70</sup>. The decisions were taken in an assumption that it would strengthen local employment in the near future.

This was the case of the first two production plants abroad back in 1987-1989: Copreci and Fagor Electrónica. Copreci, a household electric appliances components supplier, was asked (in order to maintain its strategic position as global provider) to open a factory in Mexico by their United States customer factory. Curiously, the same United States customer recently (2006) has relocated its factory in China, with the Copreci Group still supplying the same product but now from its production plant in China. At the time of writing (Nov 2007) Copreci Mexico remains opened, with a 600-employee

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<sup>68</sup> J. LARRAÑAGA (1926-2004) was one of the five co-founders of ULGOR, today Fagor Electrodomésticos, being afterward its general manager and also Director in AENOR (Spanish Quality Certification Official Institution). He has written the following books about Mondragon: “*Don Jose Maria Arizmendiarieta y la Experiencia cooperativa de Mondragon*”, “*Dimension Competitiva de la Calidad*”, “*El Co-operativismo de Mondragon: Interioridades de una Utopia*” (1998), and “*Dilema del Co-operativismo en la Era de la Globalización*” (2005).

<sup>69</sup> As found by personal interviews - locally (Cancelo, Herrasti,...) and internationally (Macpherson) - even if a global debate did not take place, Mondragon leaders such as Ormaechea, Larrañaga and Cancelo did debate on “the internationalisation paradigm” probably facing the first and most important decision after Arizmendiarieta’s death.

<sup>70</sup> J. HERRASTI 2005, Mondragon International Congress, Opening session.



workforce, led by a Mexican general manager who recently has become a “collaborator co-operative member”<sup>71</sup>.

At that time, also the case of Fagor Electrónica in Bangkok took place. Their semiconductor products (semi-assembled, non-end user products) produced in Spain were no longer competitive, due to challenges emerging from Asia with new competitors coming from Thailand. Therefore, a production plant was created in Bangkok (Thailand), integrating vertically their international production. At the end of 2006 the factory employed 242 people.

Once the Mondragon Group opted to remain competitive in its markets at home and abroad against multinationals (Clamp 2003: 31-32), the necessity of international multi-localisation became urgent. As far as the issue of competitiveness is concerned, several studies have shown that multinationals perform in global and local markets better than companies limited to one country<sup>72</sup>. Here we find, probably, the main difference between the firms committed and the not committed to a place or to a community. For a conventional firm, de-localisation or re-localisation is an alternative, for a worker co-operative is not. This defensive strategy, anticipating a shorter or a longer coming future, has been until now the common reason for all the Mondragon Group international projects abroad.

### **3.2.2 The way Mondragon co-operatives move abroad**

The Mondragon Group, as a network of worker co-operatives committed to its local region, chooses to handle foreign investment in a multi-localisation strategy, opting to use FDI in private companies while creating new greenfield affiliate firms abroad, or while acquiring partial shareholdings (through joint ventures) or even firms owned exclusively by a parent co-operative.

Until the end of 2006 it could be said that almost all the Mondragon production plants abroad were driven by specific customers or by strategic market entrance, as it was

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<sup>71</sup> Based on interviews conducted at Copreci factories (Aretxabaleta, China, Mexico, Brazil, Czech R. and Turkey), Copreci’s international “collaborator co-operative members” policy is one of the best practices analysed in the current research.

<sup>72</sup> See the footnote number 6.

difficult to coordinate common placements internationally. In a similar way, Mondragon international projects share participation with ongoing projects in the country, but the Mondragon co-operatives retain a majority shareholding and the company's control. This dual system for Mondragon, co-operative (based on working capacity) and capitalist (based on asset ownership), has been considered a divergence from the traditional co-operative approach and a mutation of the original model<sup>73</sup>.

On one hand, it can be affirmed that such a model is not a final stage in the Mondragon internationalisation procedure. According to Ormaechea, "in a short period of time we will search for a hybrid formula of moral and human satisfaction, for those economic and social goals, that are impossible to tackle with the traditional co-operative local structure" (Irizar, 2006: 115). On the other, neither exist a clear statement nor a plan for transforming those subsidiaries into a co-operative structure. The current private ownership affiliated companies is "the least worst"<sup>74</sup> scenario that until now has been identified.

### 3.3 ROLES ASSUMED IN THE INTERNATIONALISATION OF THE MONDRAGON GROUP

#### 3.3.1 The role of the Mondragon Group corporative structure

Mondragon co-operatives have always maintained their own independent working organisation and the voluntary inter-cooperation between different sectors or divisions. At the very beginning (1959) was founded Caja Laboral (the Mondragon Group co-operative bank), and it was crucial for promoting new co-operatives, as well as for supporting and controlling co-operative economic success. During the 1970s and 1980s the Caja Laboral Group (*Grupo Asociado a Caja Laboral*) was the first step in the co-

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<sup>73</sup> For further detail see section 1.14.

<sup>74</sup> The Spanish term "*menos malo*" was expressed by Professor Aranzadi while evaluating the Mondragon Group current international framework.

operative holding coordination until 1982 (Larrañaga, 2006: 62)<sup>75</sup>, while in 1990 was planted the seed of what would be Mondragon Group “MCC structure”<sup>76</sup>.

In 1991, when the co-operative group was re-organised, “the MCC holding structure” was created in order to provide a unified and stronger structure to be a supporter of co-operative activity, amalgamating common policies and giving place to more favourable synergy conditions. This worked as a coordinated network<sup>77</sup>, overcoming challenges to co-operatives (internationalisation, R&D initiatives, investment, financing, training, etc.).

The Mondragon Group structure is closer to an association than to a traditional corporation. According to Larrañaga, the Mondragon Group structure is to the co-operatives similar to what the supranational agreement of the European Union is to the nation-state: “In each and every case the co-operative alone takes the risk, and has always to seek the means and the methods to maintain itself as a profitable venture (...). The MCC is a reinforcement unit, though it does not override the co-operative in its search for placement at a global sphere” (Larrañaga, 2005: 236).

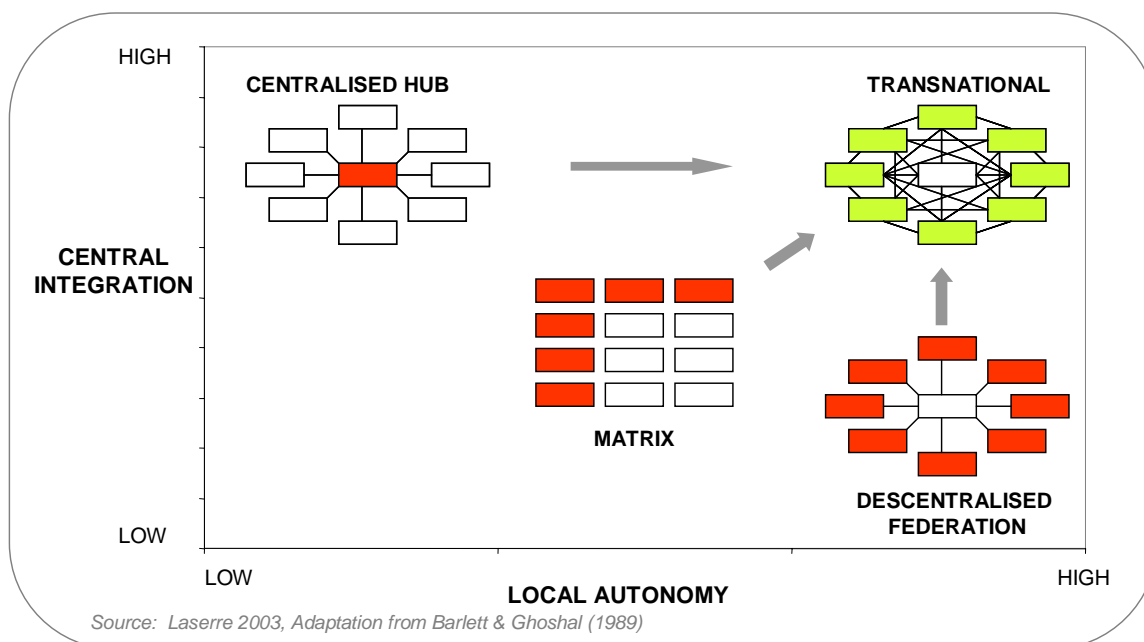
With such acting philosophy, the co-operatives themselves have assumed from the beginning the activities and challenges of the internationalisation process. Therefore, the overall coordination of the Mondragon Group is closer to a “transnational corporation” as defined by Goshell and Barlett than to a “centralised”, “matrix” or “decentralised” structure.

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<sup>75</sup> “In 1982 took place the thinking for a change regarding the Co-operative Experience by the need to open Caja Laboral services to non-co-operative organizations; this was favoured by cash width (*holgura de caja*), because no new co-operatives were extant capable of assuming the amount of annual savings, and therefore a general practice was used for personal loans” (J. LARRAÑAGA, 2005: 62).

<sup>76</sup> Nowadays there are quite a few successful co-operatives, such as Irizar S. Co-op, that need financial support during certain periods. The role of Caja Laboral involved financial support during the crisis periods, and assured crucial control and management strategy. In 1985 Caja Laboral was forced by the Spanish Central Bank to diversify the customer profiles, reducing the weight of co-operatives to a maximum of 20% of the bank activity. At the end of 2006 the weight of Mondragon co-operatives on Caja Laboral financial risk was in between 3-4%. This dual role of support and control was later led by MCC headquarters and by anew supporting co-operatives such as MCC investments or the MCC Foundation.

<sup>77</sup> Overall co-operatives are grouped by business divisions and are globally coordinated by the corporation. According to the MCC management model: “there are coordinating roles at the three different levels; however, this does not mean the co-operative management is conducted by or subordinated to higher level decisions”.



**Figure 3.4:** Global organisational designs (Barlett & Ghoshal 1989)

It is important to note that according to the third Mondragon co-operative principle<sup>78</sup> (sovereignty of labour), autonomy and independence at the different decision-making levels remains with the worker co-operative members in every co-operative.

### 3.3.1.1 The international department support

In the early nineties, the “international dimension” was identified as a fundamental tool for Mondragon industrial co-operative competitiveness; a specific internationalisation department was created in the new “MCC headquarters and central services structure” in 1994. The first internationalisation four-year plan was launched for 1991-1994<sup>79</sup> with only one objective: “to promote co-operatives internationalisation process”. The last plan, MECI 2004-2008<sup>80</sup>, assumed that the goal of pushing the internationalisation process was achieved, and that in the following years the role of the international department will be that of coordinating rather than one of promoting<sup>81</sup>.

<sup>78</sup> To have a complete list of the Mondragon Group co-operative principles, see the ten special numbers of TU-Lankide (From November 2004 to September 2005). They can be found also at the Mondragon Group website (<http://www.mcc.es/esp/co-operativismo/expemcc/principios/x.html>).

<sup>79</sup> Mondragon Corporate Internationalisation Strategic Plan 1999-2003.

<sup>80</sup> Corporative Internationalisation Strategic Framework 2004-2008 (MECI: Marco Estratégico Corporativo Internacionalización).

<sup>81</sup> Analysing different plans (PECI's and the current MECI), we identify different criteria. One is the “internationalisation investment”, supported by MCC funds; the MCC funds were non-refundable and until 2004 bigger than in the following 2004-2008.

At the end of 2006 the Mondragon Group international department boasted a team of 26 persons. Six worked in Mondragon and the remaining 20 in the Mondragon Group delegations in China, India, Brazil, Mexico, Russia and the United States. In China and in India the Mondragon Group international department also ran two purchasing offices that worked exclusively for Mondragon co-operatives. These offices in emerging countries are used mainly for those local co-ops which do not have there their own purchasing, sales representation office, or production plants in these countries. At the end of 2006, 38 co-operatives were working and more than 60 local suppliers have been certificated.

### 3.3.1.2 The internationalisation strategic plan

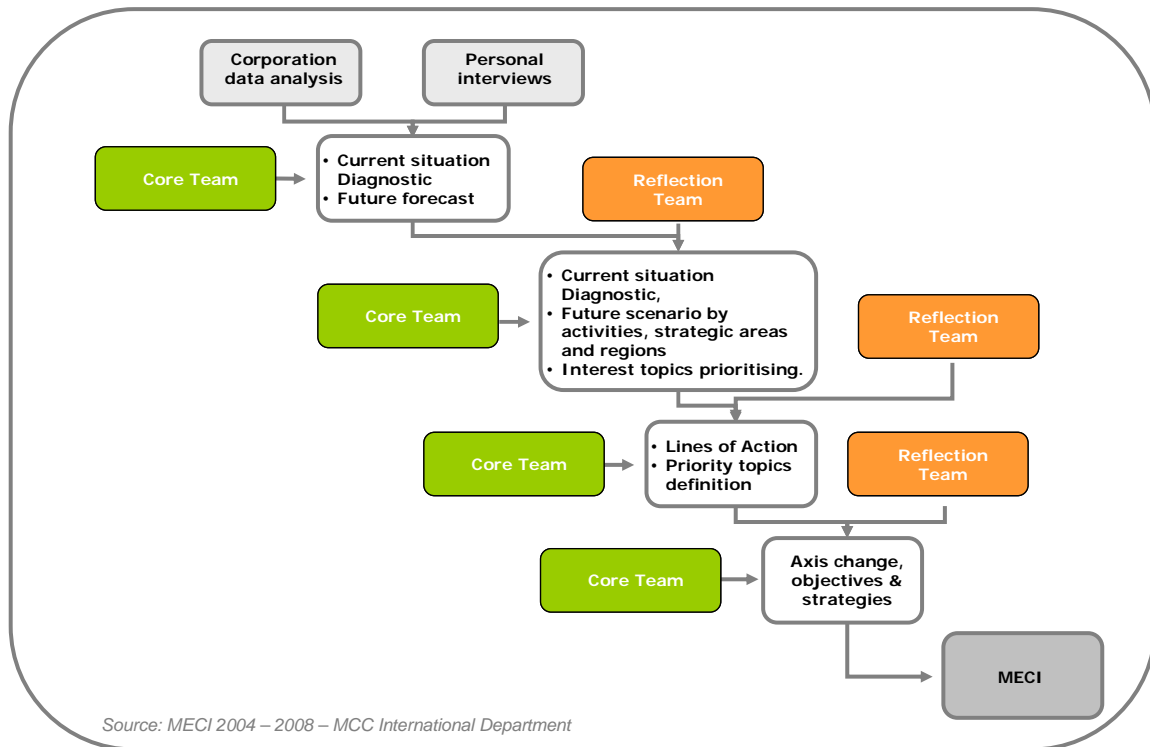
The MECI<sup>82</sup> main goal was to create a shared opinion over the general profile of Mondragon Group internationalisation, and to agree on the basic strategies to be considered in each period. Two aspects are pointed out in the document:

- Horizontal character.
- In no case whatsoever will it substitute the goal for strategic planning defined by each business/co-operative activity.

The Mondragon Group strategic plan or framework is defined by two teams. The first team is the so-called “core team”, formed by five members from the Mondragon Group Headquarters, and helped by some management consultants from LKS (Mondragon consulting services co-operative). This team will be in charge for promoting and organising working materials, and for guiding the reflection process among a larger group of people. The so-called “reflection team” is formed by 40 people, most of them general managers or international department managers from the co-operatives. It is at this level where the main activities, objectives and internationalisation means are defined. In the following chart, the MECI strategy process is defined.

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<sup>82</sup> Focus is mainly on the current plan (MECI 2004-2008) analysis. When referring to previous plans, these will be specifically quoted.



**Figure 3.5:** The Mondragon Group international corporate strategy definition

According to the last MECI 2004-2008, the main outcomes can be examined in three different groups:

- Main interest topics: main concerns or strategic points are highlighted, in order to define objectives, activities, indicators and responsibilities in each topic.
- Activities: four to five objectives are defined, on the ground of basic activities (sales, buying, producing).
- Countries and regions: specific countries are defined as strategic, and also the main activity focussing on each one (sales, purchasing, and production).

The current MECI identifies the following strategic change axis for the corporation internationalisation in the period 2004-2008:



**Figure 3.6:** The Mondragon Group international strategy – Axis change 2004-2008

For every change axis, the MECI defines objectives to be achieved by the end of the four-year period, and also activities to be implemented, indicators to measure results, and people or departments that are responsible for them. There are also overall indicators for the Mondragon Group internationalisation process, regarding the aggregated numbers of all the co-operatives in the group.

OBJECTIVES & ACTIVITIES	International department indicators	Corporative indicators
<b>SALES</b>		
International sales		x
% International sales	x	
Number commercial subsidiaries	x	
Number new agreements	x	
<b>PRODUCTION</b>		
Offshore production		x
% Offshore production	x	
Number production subsidiaries	x	
Number offshore people		x
% Offshore people	x	
<b>PURCHASES</b>		
International purchases		
% International purchases	x	
<b>MARKETING</b>		
Number corporative delegations		x
Number organism		x
<b>R&amp;D</b>		
Number international alliances	x	
Number international projects		x
<b>GLOBAL</b>		
Internationalisation index	x	

**Figure 3.7:** The Mondragon Group international strategic objectives indicators

According to the previous chart, the indicators are mainly focused on co-operative economic success, except from the “number of offshore people” related to employment creation<sup>83</sup>. Once the MECI is approved by the General Council of the Mondragon Group, it is presented and discussed with co-operatives. Co-operatives use this information as a guide to develop their specific strategic plan. According to the Mondragon Group management model, co-operatives prepare a four-year strategic plan, present their Management Plan annually, and communicate their numbers for Management Plan Control on a monthly basis.

The Mondragon Group management model has significantly changed during the co-operative network history, and the implementation of last version of the corporative management model is taking place<sup>84</sup>.

### 3.3.1.3 Financial support: Mondragon Group inter-cooperation instruments

According to the Mondragon Group Headquarters, “co-operatives have a critical financial weakness”, due to the variability of their equity capital, to the smaller capacity of their members to increase their paid-in capital, and to the fact that it is impossible to have access to share capital increases at the stock markets. The Mondragon Group has tried to minimise the co-operative individual weakness; and it has done not only with the Mondragon Group corporative and industrial divisions’ structure, but also with the new financial inter-cooperation tools.

In 1990 were created MCC Investments (*MCC Inversiones*), MCC Foundation (*Fundación MCC*), and MCC Development (*MCC Desarrollo*). Briefly, their main objectives are: annual profits and looses inter-co-operative re-distribution, financial support for international projects, and the promotion of new strategic sector initiatives.

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<sup>83</sup> As mentioned above, according to Mondragon co-operatives managers, such as J.M. Ormaechea, the worker co-operative’s main CSR is to create employment, historically close to the local region where they are born, but nowadays in any region where they operate all over the world.

<sup>84</sup> The first Mondragon Group management model was defined in 1996 and inspired by total quality models. In 2002 it was updated with minor modifications, and introduced best corporate practices. In 2003 a new release for affiliated companies was presented, with its application being considered mainly for companies in Spain. In 2006 a new review took place, integrating the whole model into Mondragon Group culture. At the time of writing, the model has already been presented and approved at the Mondragon Group general council. The new model is based on a contemporary approach to people involvement and participation, and will have an implementation not only on parent co-operatives, but also on international production plants (For further detail, see section 3.4.7).



### Profits and losses re-distribution among co-operatives

Co-operatives share a percentage of their annual profits or losses among those co-operatives operating in the same industrial division. Each division decides which percentage will be share in between 15% and 40%. If the co-operative annual activity has profits, the settled percentage will be deposited in a common basket; and if the co-operative has losses, twice the percentage defined will be placed. The total amount in the common deposit will be distributed among the co-operatives, according to weight of the employee wage cost of each co-operative (See example on figure 3.8).

(20%)						
COOP	COOP RESULT (ex ante)	COMMON FUND DEPOSIT (1)	TOAL WAGES COST	RE-DISTRIBUTION (2)	SUBSTRACTION (2)-(1)	COOP RESULT (ex post)
<b>A</b>	500	100	10,000	200	+100	600
<b>B</b>	-500	-200	5,000	100	+300	-200
<b>C</b>	3,500	700	15,000	300	-400	3.100
<b>TOTAL</b>	3,500	600	30,000	2%	-	3.500

*Source: MCC Investments*      **Example: Re-distribution for COOP A :  $600 \times (10.000 / 30.000) = 200$**

**Figure 3.8:** The Mondragon Group co-operatives' profits and losses re-distribution policy

#### 3.3.1.4 Financial support for co-operative international projects

In order to assume an international strategy, Mondragon co-operatives need a great financial support. Conventional firms (based on asset ownership) may have access to several finance options, including the stock market. Worker co-operative financial resources for internationalisation are more limited; therefore, coherent with Mondragon Group first internationalisation plan (PECI 1991-94), a specific level of financial support was defined at the Mondragon Group for internationalisation.

MCC Investments support is based on entering as a co-partner of the FDI abroad, while acquiring totally or partially an existing company, or starting a new greenfield project.

MCC Investment will gradually reduce financial outlay by selling shares to the co-operative, usually after the first five years, once the production plant abroad is reporting profits. There is an interest rate for the Mondragon Group corporative financial support as a co-partner, though it is smaller than having an external co-partner. Therefore, the co-operative control of the new production plant abroad is assured. Except from some specific projects, almost all the Mondragon co-operatives have used MCC Investments support while assuming FDI, at least for their first project abroad.

At the end of 2006, among the 65 production plants abroad, 11 involved MCC Investments. Almost all these production plants have yet to enter the black; MCC Investment owns in between 10% and 40% of the subsidiary assets.

The *MCC Foundation* and the rest of MCC financial tools (*MCC Development* and *MCC Innovation*) focus on promoting strategic initiatives for co-operatives; therefore, during the 1990s they promoted internationalisation, financing for specific activities or projects, and recently they have focused on promoting innovation among co-operatives. During the period 1994-2006 the total financing amount was €164.6m with 40% for education and innovation initiatives (MCC, 2006b).

The analysed inter-cooperation tools pursue the creation, maintenance, and growth through co-operative activities development. The redistribution of the economic results tends to support co-operatives in their losses rather than to deal with profit distribution; and that is a crucial asset for co-operatives development and maintenance; otherwise, they would have disappeared.

### **3.3.2 The role of the industrial divisions**

In 1990 the Mondragon Group structure divided the co-operative industrial group in seven industrial divisions (became eight with Ulma joining Mondragon Group in 2001), in order to coordinate different industrial sector activities. The Mondragon Group IX<sup>th</sup> Congress in 2005 approved a new “industrial group organisational adaptation”, modifying the 1991 structure and a new 12 industrial divisions structure was defined. This structure includes mainly specific industrial sector adaptations.

2006 STRUCTURE	NUMBER OF EMPLOYEES			COOP MEMBER	2004 STRUCTURE	NUMBER OF EMPLOYEES			COOP MEMBER
	TOTAL	PARENT COOP	ABROAD			TOTAL	PARENT COOP	ABROAD	
CONSTRUCTION	2,928	1,617	392	1,067	CONSTRUCTION	4,697	3,386	460	2,165
ELEVATION	3,283	2,380	435	1,547					
HOUSEHOLD	10,684	3,906	6,780	3,650	HOUSEHOLD	12,198	4,517	7,147	4,099
EQUIPMENT	1,173	810	360	575	INDUSTRIAL EQUIPMENT	4,167	2,307	1,477	2,093
GOIKIDE	2,785	1,288	1,117	1,054					
MACHINE TOOL	1,112	988	124	878	MACHINE TOOL	1,112	988	124	878
AUTOMOTIVE	7,301	3,498	1,294	2,842	AUTOMOTIVE	7,301	3,498	1,294	2,842
COMPONENTS	5,619	3,158	2,455	2,534	COMPONENTS	5,619	3,158	2,455	2,534
INDUSTRIAL SYSTEMS (ULMA)	3,510	2,528	1,000	1,777	INDUSTRIAL SYSTEMS (ULMA)	3,510	2,528	1,000	1,777
INDUSTRIAL AUTOMATISATION	1,434	1,126	259	966	ENGINEERING & EQUIPMENT	3,532	2,972	282	2,505
ENGINEERING & SERVICES	1,134	882	23	911					
TOOLS & SYSTEMS	1,281	1,281	0	1,129	Other Coops	108	108	0	37

Source: ex novo from MCC 2004 – 2006

**Figure 3.9:** The Mondragon Group industrial division structure: employment Dec. 2006

2006 STRUCTURE	2004 STRUCTURE
<b>CONSTRUCTION</b> BIURRARENA COINALDE ECOTECNIA ETORKI F. INDUSTRIAL KIDE LANA ROCHMAN URSSA	<b>CONSTRUCTION</b> BIURRARENA COINALDE ECOTECNIA ETORKI LANA ROCHMAN URSSA ELECTRA VITORIA ORONA
<b>ELEVATION</b> ELECTRA VITORIA ORONA	
<b>HOUSEHOLD</b> COINMA DANONA DOMUSA CALEFACCION EKISUN F. ELECTRODOMESTICOS GERODAN	<b>HOUSEHOLD</b> COINMA DANONA DOMUSA CALEFACCION EKISUN F. ELECTRODOMESTICOS GERODAN F. INDUSTRIAL KIDE
<b>EQUIPMENT</b> ALKARGO BECKER DANONA LITOGRAFIA DIKAR EDERFIL ELKAR EREDU EVAGRAF HERTELL OIARSO ORBEA OSATU ROKOT	<b>INDUSTRIAL EQUIPMENT</b> ALKARGO BECKER DANONA LITOGRAFIA DIKAR EDERFIL ELKAR EREDU EVAGRAF HERTELL OIARSO ORBEA OSATU ROKOT AMPO IRIZAR UROLA ALECOP
<b>GOIKIDE</b> AMPO IRIZAR UROLA	
<b>MACHINE TOOLS</b> DANOBAT DANOBAT SISTEMAS DANORAIL DOIKI EGURKO ESTARTA GOIMEK GOTTI IDEKO LATZ LEALDE ORTZA SORALUCE	<b>MACHINE TOOLS</b> DANOBAT DANOBAT SISTEMAS DANORAIL DOIKI EGURKO ESTARTA GOIMEK GOTTI IDEKO LATZ LEALDE ORTZA SORALUCE
<b>AUTOMOTIVE</b> CIKAUTXO ECENARRO F EDERLAN FPK MAIER MAPSA	<b>AUTOMOTIVE</b> CIKAUTXO ECENARRO F EDERLAN FPK MAIER MAPSA
<b>COMPONENTS</b> CONSONNI COPRECI EIKA EMBEGA F ELECTRONICA MATZ-ERREKA ORKLI TAJO	<b>COMPONENTS</b> CONSONNI COPRECI EIKA EMBEGA F ELECTRONICA MATZ-ERREKA ORKLI TAJO
<b>INDUSTRIAL SYSTEMS</b> ULMA CARRETELLAS ELEVADORAS ULMA CONSTRUCCION ULMA FORJA ULMA HANDLING SYSTEMS ULMA HORMIGON POLIMERO ULMA PACKAGING	<b>INDUSTRIAL SYSTEMS</b> ULMA CARRETELLAS ELEVADORAS ULMA CONSTRUCCION ULMA FORJA ULMA HANDLING SYSTEMS ULMA HORMIGON POLIMERO ULMA PACKAGING
<b>INDUSTRIAL AUTOMATISATION</b> F ARRASATE F AUTOMATION MONDRAGON ASSEMBLY ONA-PRES	<b>ENGINEERING &amp; EQUIPMENTS</b> F ARRASATE F AUTOMATION MONDRAGON ASSEMBLY ONA-PRES LKS LKS INGENIERIA AURRENAK BATZ LORAMENDI MATRICI MB SISTEMAS MONDRAGON SISTEMINFORM ONDOAN
<b>ENGINEERING &amp; SERVICES</b> ALECOP LKS LKS INGENIERIA MCC TELECOM MONDRAGON LINGUA MONDRAGON SISTEMINFORM ONDOAN	
<b>TOOLS &amp; SYSTEMS</b> AURRENAK BATZ LORAMENDI MATRICI MB SISTEMAS	<b>OTHER COOPS</b> MCC TELECOM MONDRAGON LINGUA

Source: ex novo from MCC 2004 – 2006

**Figure 3.10:** The Mondragon industrial co-operatives by division (2004 vs.06)

Industrial divisions play an important role in Mondragon Group internationalisation process, with certain divisions more integrated than others (fig. 3.11). The coordination strategy may include the following international activities: a common international market access with a catalogue including all the co-operatives products range, specific common strategies in certain international projects by investing a few co-operatives together in the same company, or a common sales representative's office.

INDUSTRIAL DIVISION 2004 STRUCTURE	EMPLOYMENT CATEGORIES	NUMBER EMPLOYEES at 31st DEC								NET GROWTH 1999-2006
		1999	2000	2001	2002	2003	2004	2005	2006	
COMPONENTS	PT	3,500	3,920	4,207	4,341	4,429	4,764	5,210	5,619	2,119
	Net Job Growth	-	12.00%	7.32%	3.19%	2.03%	7.56%	9.36%	7.85%	60.54%
	PEX	267	546	881	979	1,265	1,651	2,185	2,455	2,188
	% PEX / PT	8%	14%	21%	23%	29%	35%	42%	44%	-
INDUSTRIAL EQUIPMENT	PT	2,500	2,629	2,968	3,992	3,915	3,985	4,114	4,167	1,667
	Net Job Growth	-	5.16%	12.89%	34.50%	-1.93%	1.79%	3.24%	1.29%	66.68%
	PEX	387	502	701	1,240	1,750	1,315	1,420	1,477	1,090
	% PEX / PT	15%	19%	24%	31%	45%	33%	35%	35%	-
CONSTRUCTION	PT	2,214	2,425	2,472	2,626	2,939	3,337	4,308	4,697	2,483
	Net Job Growth	-	9.53%	1.94%	6.23%	11.92%	13.54%	29.10%	9.03%	112.15%
	PEX	-	37	40	43	76	97	427	460	423
	% PEX / PT	-	2%	2%	2%	3%	3%	10%	10%	-
INDUSTRIAL SYSTEMS (ULMA)	PT	-	-	-	2,474	2,598	2,747	3,167	3,510	1,036
	Net Job Growth	-	-	-	-	5.01%	5.74%	15.29%	10.83%	41.88%
	PEX	-	-	-	425	464	786	831	1,000	575
	% PEX / PT	-	-	-	17%	18%	29%	26%	28%	-
HOUSEHOLD	PT	5,591	7,892	7,474	7,667	7,519	7,608	12,089	12,198	6,607
	Net Job Growth	-	41.16%	-5.30%	2.58%	-1.93%	1.18%	58.90%	0.90%	118.17%
	PEX	805	2,510	1,947	2,048	1,765	2,019	6,732	7,147	6,342
	% PEX / PT	14%	32%	26%	27%	23%	27%	56%	59%	-
ENGINEERING & EQUIPMENT	PT	1,798	1,969	2,326	2,318	2,879	2,942	3,138	3,532	1,734
	Net Job Growth	-	9.51%	18.13%	-0.34%	24.20%	2.19%	6.66%	12.56%	96.44%
	PEX	173	187	213	234	221	220	261	282	109
	% PEX / PT	10%	9%	9%	10%	8%	7%	8%	8%	-
AUTOMOTIVE	PT	4,923	5,342	6,215	6,294	6,987	6,923	6,816	7,301	2,378
	Net Job Growth	-	8.51%	16.34%	1.27%	11.01%	-0.92%	-1.55%	7.12%	48.30%
	PEX	241	295	1,051	869	1,034	881	877	1,294	1,053
	% PEX / PT	5%	6%	17%	14%	15%	13%	13%	18%	-
MACHINE TOOL	PT	1,155	1,240	1,202	1,271	1,143	1,151	1,085	1,112	-43
	Net Job Growth	-	7.36%	-3.06%	5.74%	-10.07%	0.70%	-5.73%	2.49%	-3.72%
	PEX	0	0	0	103	134	138	125	124	124
	% PEX / PT	0%	0%	0%	8%	12%	12%	12%	11%	-

Source: ex novo from MCC 2004 – 2006

**Figure 3.11:** The Mondragon industrial divisions: Net-job growth 1999-2005

There are important differences in the international multi-localisation process regarding the diverse industrial sectors.

### 3.3.3 The role of the co-operatives

Mondragon industrial co-operatives have been supported by the Mondragon Group Headquarters (such as the international department and financial department), though each co-operative autonomously has followed its own specific approach to internationalisation. Therefore, a wide variety of strategies among Mondragon industrial

co-operatives exists: at the end of 2006, 25 global co-ops with 65 production plants abroad were identified, as may be seen in the following chart<sup>85</sup>.

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<sup>85</sup> It should be noted that Matrici and Batz are presented together due to the fact that they have invested jointly in the factory in Portugal.

GLOBAL COOPS	AFFILIATED COMPANIES	COUNTRY	ACTIVITY
CIKAUTXO	Cikautxo CZ Cikautxo SK Nova Paranoa	CZECH R. SLOVAK R. BRAZIL	Rubber components for automotive and household products
FAGOR EDERLAN	Ederlan Do Brasil Fundicao Brasileiras Fagor Ederlan - Slovensko	BRAZIL BRAZIL SLOVAK R.	Iron & aluminium products for automotive sector
MAIER	Maier UK Maier CZ	UK CZECH R.	Plastic products for automotive sector
COPRECI	Copreci Mexico Copreci CZ Copreci Brasil Copreci Systems Copreci Turkia Copreci China	MEXICO CZECH R. BRAZIL ITALY TURKEY CHINA	Household electrical components
EIKA	FONDEIK sro CZEika sro Eika Mexico Eika Polska	CZECH R. CZECH R. MEXICO POLAND	Components for cookers: electric hot plates, resistances
FAGOR ELECTRONICA	FAGOR Thailand	THAILAND	Semiconductors
MATZ ERREKA	Erreka Mex Matz-Erreka-Kovoplast	MEXICO CZECH R.	Plastic components for automotive and household products
ORKLI	Orkli Ningbo Orkli Do Brasil	CHINA BRAZIL	Safety components for household gas products
TAJO	Treboplast Tabiplast (2)	CZECH R. POLAND	Plastic components for automotive and household products
EMBEGA	Embega Polska	POLAND	Household electrical components
ELECTRA VITORIA	Quality Lifts Products Sprinte EV Elevadores EV Internacional	UK FRANCE MEXICO	Lift manufacture, installation & maintainance
ULMA CONSTRUCCION	Bauma Alpi Nantont Huarong	POLAND ITALY CHINA	Industrial equipment for construction
ORBEA	Orbea USA Lusorbea Montagem Bicic.	USA PORTUGAL	Bicycles
COINALDE	Coinalde Polska	POLAND	Industrial equipment for construction
DIKAR WINGROUP	Shanghai Wingroup Ningbo East Armortech Industries	CHINA CHINA CHINA	Indoor fitness products & sports goods
IRIZAR	Irizar Tianjin Irizar Magreb Irizar Brasil Irizar México Irizar TVS Irizar Southern Africa PTY	CHINA MOROCCO BRAZIL MEXICO INDIA SOUTHAFRICA	Luxury coaches
FAGOR ELECTRODOMESTICOS	Extra Electro Menagers Fagor Mastercook Fagor Brandt Fagor Brandt Verolanouva Fagor Shanghai	MOROCCO POLAND FRANCE ITALY CHINA	Household electrical goods: Kitchens, laundries, refrigerators & mini size goods
FAGOR INDUSTRIAL	Fagor Industrial Mexico Fagor Industrial Turkey Fagor Industrial Poland Danube Internacional Setricefradue	MEXICO TURKEY POLAND FRANCE ITALY	Industrial Cooking goods for hotels and restaurants
MATRICI-BATZ	MB Lusitana de Matrices	PORTUGAL	Injection-moulded and pressed products
MONDRAGON ASSEMBLY	Mondragon Assembly Mondragon Assembly Gaiindu Mondragon Assembly	FRANCE GERMANY MEXICO	Automatised assembly systems
LKS	Sei	Francia	LKS
FAGOR AUTOMATION	BJ Equipment	CHINA	Electric components for Machine tools
DANOBAT	Danomar Overbeck GmbH Newall UK	RUMANIA GERMANY UK	Machine tools
SORALUCE	Danobat Bimatec	GERMANY	Machine tools
EGURKO	Egurko - Planerko	RUMANIA	EGURKO

Source: ex novo – Adaptation from MCC 2006

Figure 3.12: The Mondragon Group production plants abroad, Dec 2006

The implementation of EFQM standards in Mondragon co-operatives had also a direct impact on the Mondragon Group internationalisation process. Since 1990 some co-operatives have assumed total quality management (Maier 1995, Irizar 1994), with almost all industrial co-operatives incorporating EFQM standards.

### **3.3.4 The role of the support co-operatives**

Historically one of the most influential reasons for the success of Mondragon co-operatives is the notion of “support co-operatives”. We briefly analyse which has been the role of these co-operatives in the Mondragon Group internationalisation process.

#### **3.3.4.1 Mondragon University**

The first project of the Mondragon co-operative experience in 1942 was the Mondragon Technical School, which later gave place from 1956 onwards to the co-operative policy of recruiting recent graduates directly from the School. In 1997 the Technical School gained recognition as a higher education institution, and the Mondragon University (MU) was created<sup>86</sup>. During the 2005-2006 academic year, the University had 3,339 undergraduate and 428 postgraduate students at its four campuses in the local region. Internationally, 170 students have followed the Erasmus or Socrates programmes at universities abroad, 50 students have enjoyed training placements at companies abroad, and 30 lecturers have participated in research trips to other countries.

On one hand, an international interest exists in Mondragon University and from 1972 the students had the opportunity to complete their studies in other European countries. On the other, Mondragon industrial co-operatives have several production plants abroad (as well as more than 120 commercial subsidiaries). But it seems that internationalisation process of the University outstrips that of the industrial division. Except from some specific cases, Mondragon production plants abroad have not generally recruited graduates from Mondragon University.

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<sup>86</sup> Mondragon Unibertsitatea is made up of three faculties (engineering, management and humanities) with each one being a worker co-operative that includes a General Council with representation from the university staff, students, and Mondragon co-operatives. See: [www.mondragon.edu](http://www.mondragon.edu).



### 3.3.4.2 Technology Centres

Since the Ikerlan technology centre was created back in 1974, the Mondragon Group has been strongly committed to research and development (R&D), with globalisation increasing the need of R&D investment in industrial activities. Mondragon industrial co-operatives have really advanced, following the “product life-cycle” (PLC) theory, by responding to its second phase: “riding the product life-cycle internationally” (Doz, Santos and Williamson, 2001: 37). They do seek internationally new local market opportunities, characteristic of HFDI, but also as the product life-cycle reaches maturity and price / costs move higher on the strategic agenda, they initiate VFDI in countries with lower cost factors, starting with the less skilled / more labour-intensive operations, which remain the higher-value operations on the parent company (Doz et al. 2001: 39).

Therefore, at the end of 2006 the Mondragon Group had 12 technology centres in the local region:

TECHNOLOGY CENTRES	ANNUAL BUDGET (Million Euros)	WORKFORCE	INTERNS
AOTEK	2.0	39	-
EDERTEK	2.5	27	-
HOMETEK	2.1	32	-
IDEKO	5.1	86	-
IKERLAN	17.6	190	39
ISEA	0.4	5	-
KONIKER	1.5	18	-
LORTEK	1.2	30	-
MTC	7.0	104	7
MIK	1.6	25	-
ORONA EIC	2.8	41	-
UPTC	2.0	48	-
<b>TOTAL</b>	<b>45.8</b>	<b>645</b>	<b>46</b>

*Source: MCC 2006 Annual report*

**Figure 3.13:** The Mondragon Group technology centres, Dec 2006

According to MECI 2004-2008, at the end of 2003 the Mondragon Group had 25 international research projects and none international research alliances. The objective defined for 2008 includes 15 new international research projects, and 15 international research alliances<sup>87</sup>.

<sup>87</sup> MECI 2004-2008.

### 3.3.4.3 LKS and services co-operatives

LKS is the Mondragon Group consulting co-operative. At the end of 2006 it was divided in four main areas: management consulting, auditing, engineering and architecture; 293 persons were employed, with 22 working abroad. During the period 1999-2006 LKS has been focussed on acquiring a market share in Spain, offering their services not only to Mondragon co-operatives but also to other companies. LKS has supported Mondragon Group internationalisation process from Spain, mainly through “international strategic plans” and “information technology (IT)” projects.

Internationally, LKS has offices in Costa Rica and in France, currently working on new offices in Mexico and Brazil, but for the moment it does not have representation in those countries where most co-operatives have been installed (Brazil, Mexico, China, or East Central Europe). Consequently, Mondragon co-operatives found support from other consulting companies already operating in those countries.

### 3.3.4.4 Garaia Innovation Park

The largest Mondragon Group project on innovation, research, and development was inaugurated in 2007. A whole new innovation park has been settled with the objective of bringing together academics and researchers from universities, enterprise innovation departments, and technology centres. It expects to have more than 1,300 researchers working together at the site by the end of 2016. The Garaia innovation park international strategy has not yet been implemented, though it is likely to be a key tool for Mondragon research internationalisation process in the coming years.

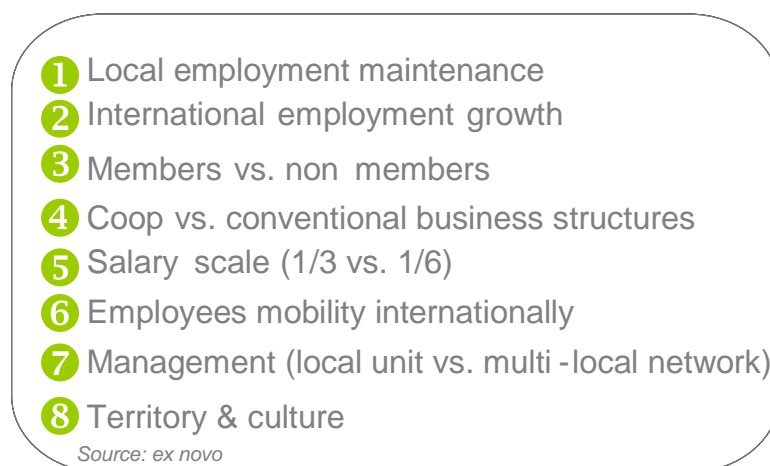
Additionally, Ategi is a platform for international purchases focussed specifically on standard products that are common to all Mondragon co-operatives. In 2006 Ategi services were opened to other co-operatives throughout the Basque Country, by way of an agreement with Erkide, the Basque co-operatives association<sup>88</sup>.

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<sup>88</sup> Erkide annual general assembly (2006).

### 3.4 MAIN IMPACTS OF THE MONDRAGON GROUP GLOBALISATION

Since the Copreci Mexico and the Fagor Electrónica-Bangkok production plants were opened in 1987-89, Mondragon co-operatives have been involved in the globalisation process, but especially in the period 1999-2006 when several new production plants abroad were opened. Such a process seems to be a successful strategy financially, “with the competitive position of Mondragon co-operatives in relation to European and world companies within the same sector being a leading one, which is considerably improved on that of a decade or two ago” (Errasti et al., 2004: 6). However, at the same time, globalisation has given place to several impacts on the Mondragon co-operative structure. Some of the most important are:

- 
- 1 Local employment maintenance
  - 2 International employment growth
  - 3 Members vs. non members
  - 4 Coop vs. conventional business structures
  - 5 Salary scale (1/3 vs. 1/6)
  - 6 Employees mobility internationally
  - 7 Management (local unit vs. multi-local network)
  - 8 Territory & culture
- Source: ex novo

**Figure 3.14:** Main globalisation impacts on the Mondragon Group co-operative structure

#### 3.4.1 Mondragon local employment maintenance and community stability

Some pertinent descriptive studies conclude that international trade has been a net destroyer of domestic jobs, and that a direct relationship exists between job displacement rates and import penetration<sup>89</sup>. Industrial capitalist firms, to remain competitive, may assume parent companies downsizing or closedown as strategic alternatives. Mondragon, as a worker co-operative committed to the local community of its co-operatives members, is not entitled to follow such a policy.

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<sup>89</sup> For further detail see section 1.1.

As Belén Kortabarria, managing director of Fagor Electrodomésticos, affirmed in an interview carried out in TU Lankide<sup>90</sup> shortly after Fagor had acquired Brandt,<sup>91</sup> “even though we (the organisation) are affected by the consequences of the de-localisation processes in our sector, we will never de-localise. We are not going to close production plants here to move them to Poland”, stressing that “we are a co-operative with two main goals: one is profitability and the other one employment”.

The phenomenon of downsizing, plant closures, and multiple layoffs has reached crisis proportions in countries with high labour cost, as is the case in Northern Europe and in the North of the United States<sup>92</sup>. Once the Mondragon Group opted to remain competitive internationally, multi-localisation became obvious and in need of having a global dimension as soon as possible. International multi-localisation FDI seems to be a proper solution; thus de-localisation was prevented and the local community defended from the trigger of the globalisation threat: unemployment. A recent slogan in the minds of Mondragon directors typified their approach: “how many new jobs do we need to create abroad to maintain one job at home?”<sup>93</sup>.

In addition to international multi-localisation through HFDI and VFDI, Mondragon Group has also launched an “innovation and technology plan 2005-2008”, one that involves five strategic areas: energy, health, information and communication technologies, processes and materials, and business management in the co-operative framework. Co-operative budget for R&D in 2006 was €105m, increasing by 13% in 2005. “The origins of the Mondragon Group lie in a humble co-operative; however, its mission has encompassed an innovative seeding process that has allowed it to be

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<sup>90</sup> TU Lankide 505 (October 2005), p. 19. Belen Kortabarria was, at that time, the Managing Director of Fagor Electrodomésticos.

<sup>91</sup> According to the Fagor Electrodomésticos financial auditing report 2004, p. 23: “Elco Brandt Group acquisition: The 16<sup>th</sup> march 2005, Fagor Electrdomesticos presented a closed offer to Elco Holland BV, subsidiary of the Israeli company Elco Holdings Ltd. To buy a 90% shareholding in Elco France B.V. Fagor Electrodomésticos with MCC Investments S.P.E. S. Co-op owned 10% of Elco France B.V. This buying offer presents a price around 162.5 million euros”. At December 2004 Elco Brandt BV had 4,700 employees, five production plants in France (Orleans, Vendome, Aizenay, La Roche sur Yon, and Lyon), one in Italy (Veroulanuova) and five subsidiaries (UK, Denmark, Italy, Switzerland, and Singapore). In December 2004 Fagor Electrodomésticos had 6,230 employees, 10 factories in three continents and 14 subsidiaries around the world. The investment decision was approved by more than 60% of co-op members at an extraordinary general assembly on 24 and 25 February 2005 in Mondragon.

<sup>92</sup> For an extensive theoretical and empirical analysis of the United States impact on freer international trade, see T. WILLIAMSON et.al 2002: 9-16 and 31-41.

<sup>93</sup> This question came about in almost all the 100 interviews conducted with Mondragon directors.

revitalised and redefined as an entity capable of meeting the growth challenges presented by globalisation and technological development” (Nueno, 2000: 17)<sup>94</sup>.

In a personal interview discussing the Mondragon Group feasibility to keep blue collar employment in the Mondragon local community, Professor Nueno<sup>95</sup> stated: “the Mondragon Group may find important opportunities on new business launch and *intrapreneurship*, evolving from current production lines on lower value added business sectors to higher ones, and entering new sectors such as medical sensors or hospital technical equipment, avoiding new competitors’ massive arrival from emerging countries focused on lower value added sectors at the same time” (Nueno, 2006)<sup>96</sup>.

According to Ormaechea: “Mondragon co-operatives face a ‘to be or not to be’ challenge, in that they need to follow the *Primum vivere, deinde philosophare* (live first, philosophise later) approach; the worst thing that might happen is not unemployment but massive job destruction” (Ormaechea, 2006: 114).

### 3.4.2 Mondragon international employment growth

International expansion through FDI multi-localisation has also strengthens the Mondragon Group foremost social commitment of employment growth (fig. 3.15). “Co-operatives most significant action even if it has not always been recognised, is their compulsive commitment to maintain and create employment” (Ormaechea, 2006:103)<sup>97</sup>.

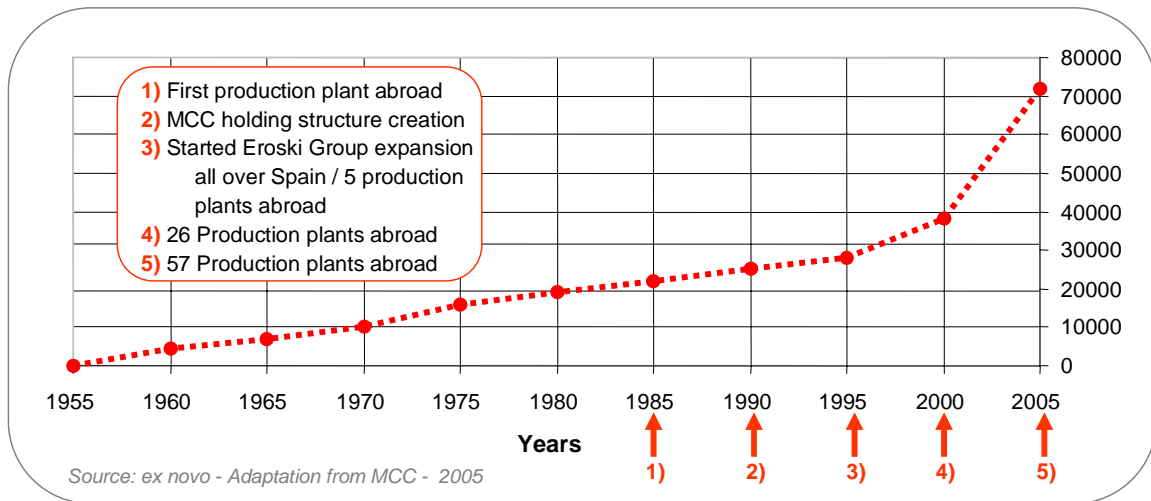
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<sup>94</sup> Original version in Spanish: “El Grupo Mondragon tiene su origen en una humilde cooperativa, pero lleva en su misión un germen de innovación que le ha permitido renovarse y redefinirse como empresa, para hacer frente a los retos de crecimiento que plantean la globalización y la tecnología”

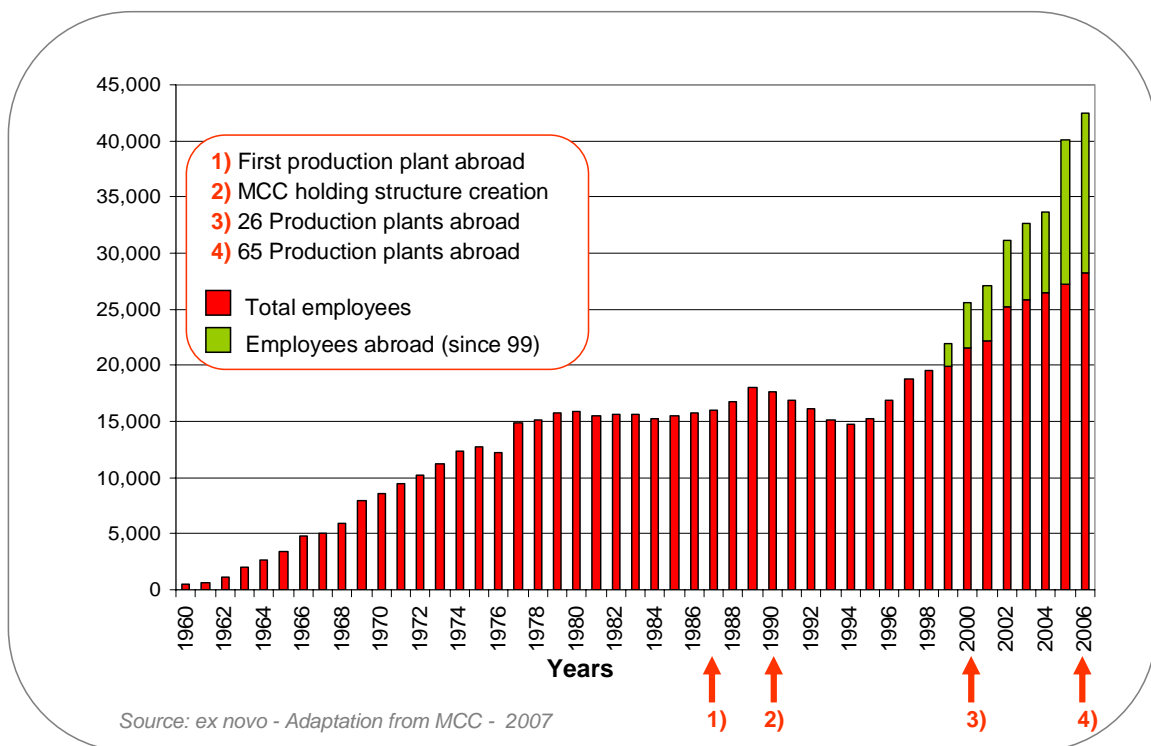
<sup>95</sup> Pedro Nueno is Professor at IESE Business School (Navarra University) and Executive President at CEIBS University in Shanghai.

<sup>96</sup> Personal interview at CEIBS campus (Shanghai) in September 2006.

<sup>97</sup> This commitment is considered by Ormaechea as the most important contribution of co-operatives to society. Additionally, according to A. KARNANI (2006), “creating opportunities of steady employment at reasonable wages is the best way to eradicate poverty”.



**Figure 3.15:** The Mondragon Group employment net-job growth: 1955-2005



**Figure 3.16:** The Mondragon industrial division employment net-job growth: 1960-2006

Mondragon co-operative employment growth commitment has been transformed. Originally jobs were created exclusively in the local community by the parent co-operatives. At present by the process of globalisation high rates of new employment are created far away from the parent co-operatives. Since 1999 the industrial co-operatives have created 12,298 new jobs abroad (fig. 3.16).

The local employment defensive strategy of co-operatives results in an international expansion, strengthening the capacity of wealth creation through employment growth. Such an analysis, that questions if new job creation at an international level corresponds to employment maintenance and creation, demands a careful consideration.

### 3.4.3 Co-operative members vs. non-members

Facing globalisation through FDI multi-localisation strategy creates at least two types of relationship between a co-operative and its employees: those employees who join the parent co-operative and become co-operative members under a “social contract”, and those who join other affiliated production plants (with a non-cooperative legal form) as employees under a “working contract”.

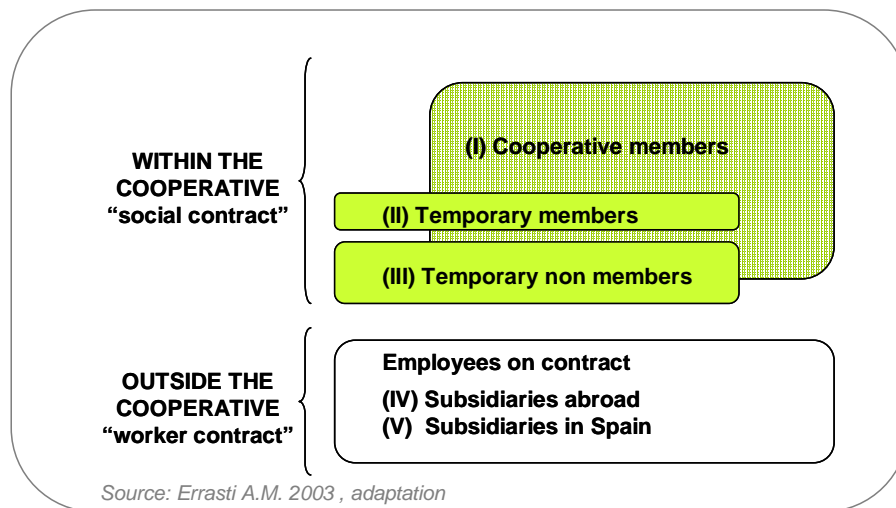
Out of these two types of relationship, members and non-members generate a mixed entity in which co-operative member workers control other non-member workers. The Mondragon Group president (1994-2002) remarks: “The model we end up with, wherein numbers of co-operativists are proprietors of a group of companies employing a majority of contracted workers, subject to the legal requisites of their respective countries, distances itself, to the point of being unrecognisable, from the founding project” (Cancelo, 2000)<sup>98</sup>.

Besides, according to Ormaechea’s argument, such “dependency” modifies one of the Mondragon principles: “no worker shall be the slave of another” (Ormaechea, 2006: 105)<sup>99</sup>. It could be said as a conclusion that a new “dual system” challenges the Mondragon paradigm (Errasti et al., 2003) by presenting two realities with five different contractual relationships:

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<sup>98</sup> The original Spanish text has been translated by A.M. ERRASTI et al., (2004: 19).

<sup>99</sup> “Ningún trabajador será siervo de otro trabajador”.



**Figure 3.17:** New Mondragon Group paradigm: dual systems (Errasti et al., 2003)

Owing to globalisation, Mondragon industrial co-operatives new job creation is mainly outside the co-operative local structures. At the end of 1994, 85% of the total workforce was made up of co-operative members; at the end of 2006, 44% were members and 34% of the total workforce was placed in production plants abroad. The international presence will keep growing, reducing at the same time the weight of co-operative members over the total workforce (Larrañaga, 1998).

### 3.4.4 Co-operative vs. conventional business legal structures

During the earlier stages of the Mondragon Group history, new co-operative creation was exceptional; from 1956-1966, 14 industrial co-operatives were created and during the period 1965-1983 (termed as "the glory years") 80 new co-operatives were founded. After the difficult period from 1980-1990, the "MCC structure" was created, with "development of new co-operatives through spin-offs from other co-operatives ended (and) start-ups deemed too costly" with profits "needed for overseas investments and joint ventures to ensure the strength and profitability of existing businesses" (Clamp, 2003: 26).

As a result, globalisation forced the co-operatives to focus on international expansion, thus sacrificing the amount of new local co-operatives spin-offs previously created. Since 1990 most of the new companies were based on non-co-operative structures. At the moment, only one over five new companies created is a worker co-operative. "The



globalisation is a sort of a ‘single thought’ (*Pensamiento Unico*) that marks in an implacable way the modes of understanding society; the result is like the empire of barrier-free competition, and of the laws of the outright market, and also the hegemony of the strong over the weak” (Ormaechea, 2006: 98).

As a consequence of this globalisation and international free trade framework and also influenced by a more individual and ownership-driven mentality, new companies prefer to adopt a non-co-operative legal structure. More recently subsidiary enterprises under capital-based legal forms have been created, both abroad and in Spain; 20,874 employees worked at these non-co-operative companies, with 15,330 working abroad at the end of 2006.

Industrial subsidiaries abroad	14,216
Commercial subsidiaries abroad	1,114
<b>TOTAL SUBSIDIARIES ABROAD</b>	<b>15,330</b>
Industrial subsidiaries in Spain	4,360
Commercial subsidiaries in Spain	1,184
<b>TOTAL SUBSIDIARIES SPAIN</b>	<b>5,544</b>
Industrial subsidiaries	18,576
Commercial subsidiaries	2,298
<b>TOTAL SUBSIDIARIES</b>	<b>20,874</b>

*Source : ex novo*

**Figure 3.18:** The Mondragon industrial division subsidiaries’ employment (Dec 2006)

For some of the Mondragon Group leaders (Ormaechea, Canelo, Larrañaga or Saratxaga)<sup>100</sup>, the legal structure does not necessarily need to be an insurmountable impediment to introduce co-operative principles into conventional capital-based structures.

However, the implementation of non-co-operative structures demands to adapt several aspects at work in a co-operative structure. Globalisation has a direct impact on co-operative principles implementation.

<sup>100</sup> They were asked during the talks of the “Master in Co-operatives” annual program at Mondragon University, or personally interviewed during 2004-2007; they are also quoted in: I. IRIZAR, 2006: 115, J. LARRAÑAGA, 2006: 232, and L. UGARTE, 2004: 365-368.

Such impact regards a dual relationship: the one between “parent co-operatives and affiliated non-co-operatives”, and the relationship between “capital ownership and working capacity” at the affiliated companies.

### 3.4.5 Salary scale

The remuneration gap, one of the historical signs of identity of the Mondragon Group, has also been modified. From the beginning in 1956 the 1/3 salary scale was maintained; at the Mondragon First Congress in 1988 the maximum limit up to 1/6 was approved by 147 in favour and 132 against<sup>101</sup>. At the Mondragon Third Congress in 1990 the 1/6 was modified, fixing the top wage level at 30% less than the salary corresponding for the same post in the market.

According to Larrañaga, for supporters of an opener system there is no doctrine that conditions the salary scale; it depends on a decision of the members and on the evolutionary variable of the surroundings. In practice this is misleading, when applied to the recruitment of high-level professionals, for need pressures the immediate competitive space (Larrañaga, 2006: 66). This historic change is due more to an internal approach than to a direct impact from globalisation. According to the information provided by the Mondragon Group<sup>102</sup>, at the end of 2006 the average among the Mondragon Group was 1/4, while the lowest for a full time job at an industrial co-operative was 1.7-1.8 and the whole group highest salary 8.8.

However, globalisation impacts directly on the “wage solidarity” in two ways:

- In the production plants abroad a “wage solidarity” culture is non-existent; still more, in some cases same management posts acquire a larger salary in emerging countries than at the parent co-operatives in Mondragon; in those countries wages of blue collar employees are considerably (from five to hundred times) smaller than the wage for the same post at the parent co-operative<sup>103</sup>.

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<sup>101</sup> The 1/3 salary scales means that the minimum salary cannot be smaller than three times the biggest salary of the co-operative. The 1/6 means smaller by six times.

<sup>102</sup> Information provided by Mondragon Group Social Management department (2007).

<sup>103</sup> As Chapter 7 will present, analysis of 40 production plants abroad revealed that only one (Fagor Ederlan Brasileira) is monitoring the “wage solidarity”.

- Those co-operative managers, who work during a certain period (of three-five years) at production plants abroad, have an allowance that complements their salary but exceeds the settled limits; that salary on average double the salary at the parent co-operative<sup>104</sup>. While such an issue appears to be logical and with no problem at all, and even a motivation for selecting the in-house proper persons for operating abroad, the problem might arise when those directors return to the parent co-operative, subject to the condition of reducing the salary to co-operative standards.

From this we can conclude that a massive international opening of new production plants (as the one taken place during the period 1999-2006) will have a direct impact on the historic “wage solidarity” policy at the parent co-operatives.

### **3.4.6 Employees international mobility**

Globalisation has a direct impact also on employees’ mobility. Historically, the Mondragon Group has maintained a local environment for employees work. However, especially for white collar jobs, it is normal to run the course of the professional career by switching company at the co-operative network in the Mondragon area. Due to the internationalisation process early steps (1970-1995), Mondragon employees (mostly directors and white collar employees) have also become accustomed to moving abroad on a temporary basis (days or weeks) for meetings with customers or of international trade fairs. But currently, due to the multi-localisation process, such a daily basis has changed to a monthly basis or even yearly one. At the end of 2006, approximately 120 Mondragon employees were working abroad for a three-to-five year period.

The framework of globalisation highlights the following observations on the Mondragon Group employees’ international mobility:

- A lack of international profiles within the Mondragon environment.
- A lack of interest on those “in-house people” capable of moving abroad.

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<sup>104</sup> Information provided by Mondragon Group Social Management department (2007).

- An international workforce supported by a local human resource (HR) strategy that does not include international professional careers for Mondragon and for foreign employees.
- The openness to global and non-co-operative realities: increasing the blending process of co-operative principles with the conduct of other capitalist multinationals, and the potential drain of internationally-skilled Mondragonians.

In 2002 the Mondragon Group Social department defined an “Expatriate policy guidelines” (*Manual del Expatriado*), prepared in collaboration with some of the most experienced co-operatives abroad, to support and guide for the Mondragon Group expatriates.

### 3.4.7 Management: local units vs. multi-local networks

Corporations’ global dimension is the main source of the management model recent innovations. MNE multicultural dimension states global dimension over the local one, where person self-realisation takes place while confronting his/her decisions with global dimension criteria (García Echevarria, 2002: 55)<sup>105</sup>.

At the same time, the management model at a given MNE does not achieve its main goal: to find synergies among its global and local dimensions, and to strengthen the creative capacity of multicultural teams focused on a common project sharing common values. García Echevarria states that “knowledge will never be shared among teams, unless they share common values; that is to say, unless people individually do not believe, trust and consequently see their future within the knowledge sharing company”<sup>106</sup>. Global corporation employees’ empowerment requires an organisational culture where employees, no matter where they are placed, switch from makers to become “creators”.

The previous statements are in coherence with the *metanational advantage*: “the global game has changed. Yesterday, becoming a global company meant building an efficient

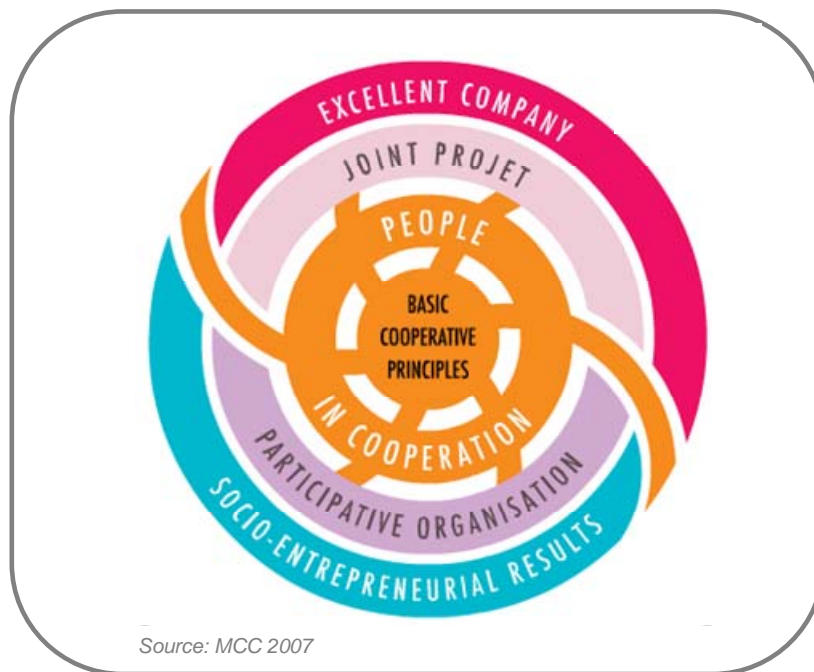
<sup>105</sup> The article “*Modelos de gestión de la empresa multinacional*” published in 2002 by S. GARCÍA ECHEVARRIA address specifically global dimension impact on management models and helps to understand the Mondragon Group corporative management model change in 2007.

<sup>106</sup> This statement is also presented in S. GARCÍA ECHEVARRIA 2002: 57.

network of production, sales, and service subsidiaries capable of *penetrating markets around the world*. But the demands of the new knowledge economy are turning this strategy on its head. Today the challenge is to innovate by *learning from the world*. Tomorrow's winners will be companies that create value by searching out and mobilizing untapped pockets of technology and market intelligence that are scattered across the globe" (Doz et al., 2001: 1). The evolution of this knowledge-economy organisational structure faces several barriers; the most critical is: the primacy of the parent company, the idea that "weight equals voice", and the assumption that local adaptations are important only locally (Doz et al., 2001: 49-50).

The Mondragon Group management policy has changed significantly over its history (MCC, 2007b).

- In 1987 were included for the first time the ICA co-operative principles on the Mondragon Group mission statement.
- In 1996 was developed the first Mondragon Group corporative management model, willing to introduce the best practices among co-operatives. It included total quality models (TQM) and specifically EFQM as a crucial source of inspiration. In the following years additional material was provided in order to implement the model on demand of co-operatives' managers, while willing to achieve EFQM certifications.
- In 2003 in order to have a referent for subsidiaries and affiliated companies, a specific version of the previous model was edited, eliminating some specific criteria and including others to be applied under a non co-operative structure.



**Figure 3.19:** The Mondragon Group corporative management model – 2007

- In 2007 a new corporative management model has been developed, with the particular aim of having, this time, the “basic co-operative principles” and “the people in collaboration” as the centre/heart of the whole model. Two main goals were introduced therewith:
  - To have a management model integrated in the Mondragon Group co-operative culture and principles.
  - To have a specific management evaluation tool, a step further from previous management model.

The current Mondragon Group corporative management model assumes MNE’s management model keys of success: “Productivity increase, innovation process acceleration, growth acceleration, and push multi-cultural change” (García Echevarria 2002: 68). So there will be a fundamental wing to implement the Mondragon Group multicultural and multinational management policy.

The fact that Mondragon is a co-operative group under a specific culture results on a closer and more homogeneous culture; therefore, the “multi-cultural change push” has to be strengthened.

### 3.4.8 Territory and culture

For the Mondragon Group, globalisation has a strong impact on territory and culture, transforming the traditional local environment, immersed as it is in the specific culture of the Basque Country, into a global environment spread all over the world with a great variety of cultures. The Mondragon international multi-localisation strategy transforms the local territory into an international multi-local one. “Co-operatives have to introduce as a main value their commitment with the territory, no matter how close or far away are from their original birthplace” (Cancelo, 2006: 142). According to this statement, Mondragon historical commitment to the local territory and community needs to be applied at a global level, no matter where the production plants are located.

The environment transformation is dramatically linked to culture and community values. The traditional and congenial values of the Mondragon co-operative movement are in contemporary society of lesser cultural relevance; this is the case in the Basque Country, in Spain, in Europe and much more in countries like India, China, Mexico or Brazil. Some of the most important Mondragon traditional values were:

- The importance of a “job post” commitment on a long-term basis at a reasonable wages.
- The solidarity, giving preference to “shared community interest” over the “individual interest”.
- The renunciation of “speculation” at company level, and at worker or family level.
- The human values inspired by the Christian social doctrine (*Rerum Novarum* and *Quadragesimo Anno*, or *Centesimus Annus*).

However, at the same time, those community needs that the Mondragon co-operative model satisfied back in the 1960s and 70s are, at some extend, similar to those at emerging and developing countries communities in the beginning of the XXI century.

The human and community values strengthened by the employment creation capacity seem to have a great interest and support on emerging countries communities.

The current needs at the Mondragon community differ considerably from the historical ones, but once the local community mindset has been overcome by a global community thinking, the same values and principles seem to be still valid, with solidarity as the crucial one.

Therefore, nowadays new bridges have to be built between the Mondragon local community and the global one. A new and common global vision has to be assumed, and this by everyone at the firm no matter the area in which they work. As highlighted by Professor García Echevarria, “the vision and the rules of governance are the expression of a business culture, of a way of understanding and doing, thus giving place to interaction of ethical and culture values. Such a business design conditions the success of a transformation process or that of merger, and also of an alternative strategy; that is to say, one in which a single or various business cultures are managed in a form where employees converge and are identified as a single corporative project” (García Echevarria, 2002 : 56).

The traditional Basque co-operative culture will be adapted to the global and multicultural framework; but for this is necessary to identify those multi-cultural common values, in order to share also a global vision. Among the Mondragon global co-operatives, there are experiences based on self-managed that encourage employees’ participation, trusting them with responsibility and freedom in the workplace. Those are a clear example of co-operative values adaptation to a multicultural environment.

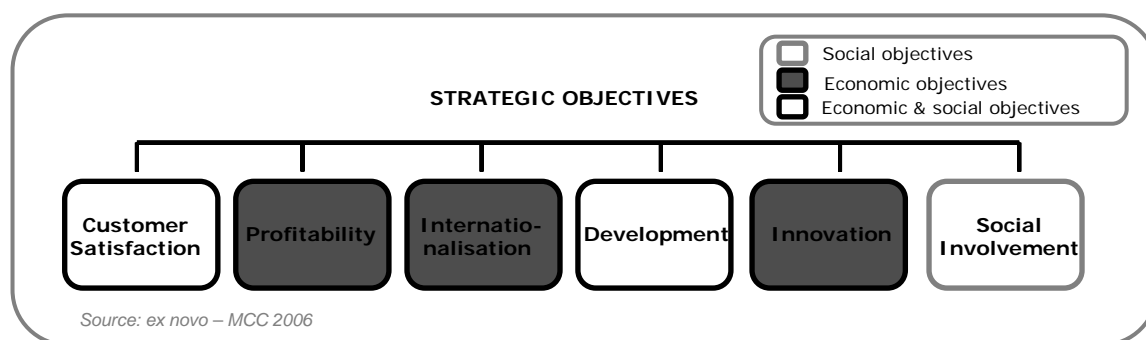
The same positive synergies of a co-operative principle (community interest over the individual one) and a human centred (working capacity over capital ownership), that was valid at a local level back in the origins of the Mondragon co-operative movement, nowadays has to be applied at a global level among those local regions abroad where the Mondragon production plants are and will be placed.



### 3.5 THE STRATEGIC OBJECTIVES OF THE MONDRAGON GROUP

#### 3.5.1 The Mondragon Group strategic plan 2005-2008: social objectives

The Mondragon Group has identified six strategic corporate objectives (fig. 3.20). For each one there have been defined five to ten specific minor objectives and their respective indicators, in order to be yearly measured and analysed. The strategic vision and the indicators have been approved by the Mondragon Group General Council, and discussed and agreed with the co-operative managers. These indicators have to be assumed by each co-operative, while creating their own strategic plan, with the aim of matching the strategic plan defined by the Group.



**Figure 3.20:** The Mondragon Group corporate strategic objectives 2005-2008

Based on their socio-economic dimension, the six strategic objectives can be classified in three groups:

- **Social objectives:** this group is directly concerned with the social aspects, regarding persons, community and values. Every single indicator here is measured, but not related to economic results.
- **Social and economic objectives:** this group deals with items placed in between the social and the economic. It pursues both types of goals at the same level, and therefore allows for indicators related to the economic results and for others related to the social impact.
- **Economic objectives:** this group is directly responsible for measuring business results, and financial profits. The many different indicators here are mostly related to financial aspects.

In order to understand the social dimension of Mondragon co-operatives, a detail review of the social indicators related to general objectives is now highlighted:

### 3.5.1.1 Customer satisfaction:

- Achieving a total score of more than 400 points in EFQM quality standards over the total period.
- Achieving an upward trend in the EFQM criterion “customer relations”.
- Transmitting a Mondragon Group business culture through the application to the 100% of the subsidiaries of the management guidelines, promoting employees’ participation, and the implementation of the business expansion policy at the production plants abroad.
- Maintaining a media relationship policy that enables to develop the corporate image and the experience of values, in both the business and social spheres.

### 3.5.1.2 Development:

- On average generating 24,700 jobs in the Mondragon Group, achieving a total of 98,800 jobs in 2008 (an average increase of 7.8% per year over the period 2005-08).
- Ensuring that 100% of managing directors and 60% of co-operative managers have a personalised training plan to be implemented during the strategic period, with €2.4m resources devoted to co-finance this programme over the period 2005-08.

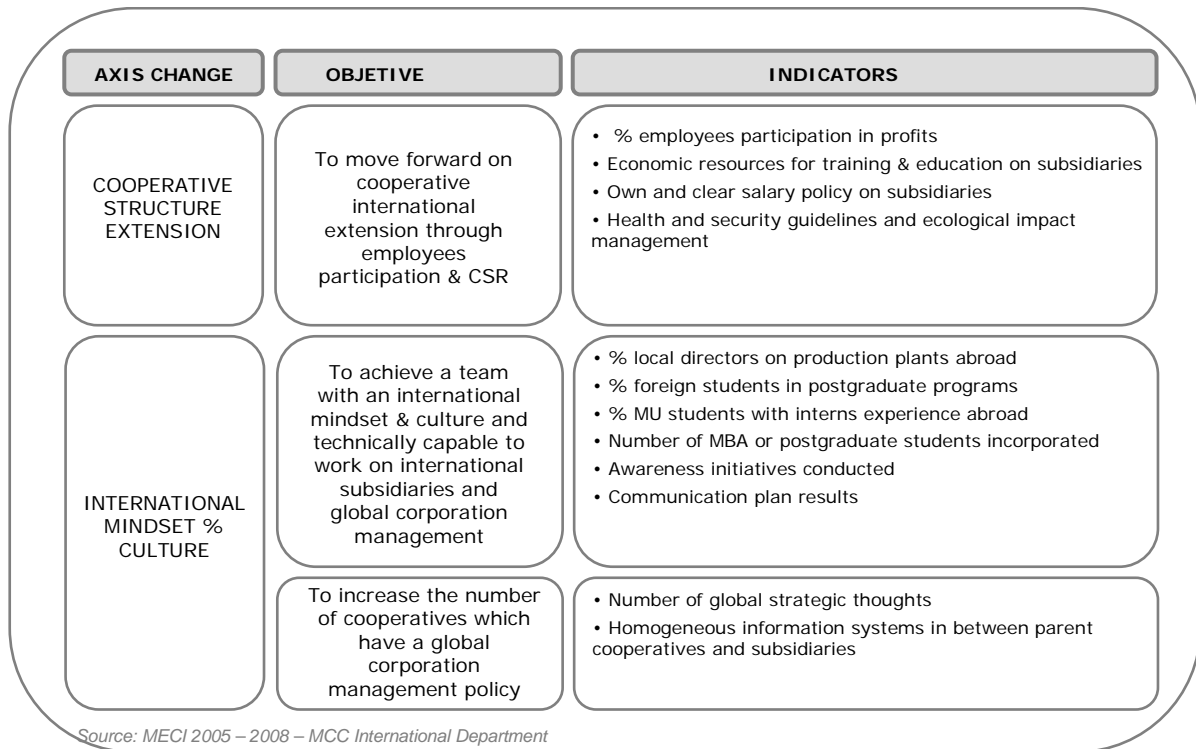
### 3.5.1.3 Social involvement:

- Every two years a direct survey is conducted on people’s satisfaction (including members and employed workers).
- Intensifying the application of basic principles and corporate values through the dynamics established by the standing committee, within the framework of the commitment undertaken by the Congress Members Assembly 2003.
- Completing the implementation of the University of Mondragon *Mendeberri* programme.

- Supporting the University of Mondragon and other education establishments of the corporation.
- Consolidating the Otalora corporative training centre, establishing and applying a model of management and governing body development.
- Attempting to ensure that the final model of the contracts composition in the parent co-operatives encloses 85% co-operative members and 15% employees.
- Maintaining for the period 2005-2008 Lagun Aro's system of health care benefits by means of special agreements with the Basque Government.
- Co-managing and reducing the current rate of absenteeism.
- Undertaking and implementing the directives of the MECI in the areas of workers participation in the production plants, and establishing monitoring mechanisms for this.
- Enhancing and guaranteeing the use of the Basque language at corporate level.

### **3.5.2 The Mondragon Group internationalisation plan 2004-2008: Social objectives**

The process of globalisation strongly influences a number of modifications to the traditional co-operative structure, allowing it to compete more effectively in global markets: this facilitates the separation of economic and social dimensions of the enterprise (Spear, 2004: 100). Such adaptation might evolve or become a mutation, thus loosing the social dimension of worker co-operatives; therefore, the current Mondragon Group internationalisation strategic plan (MECI 2004-2008) has defined “legal expansion” and “co-operative Corporate Social Responsibility (CSR)” as the main social objectives.



**Figure 3.21:** The Mondragon Group international strategy indicators 2004-2008



**Figure 3.22:** The Mondragon Group's co-operative structure, international extension objective

As seen in the previous chart, the next steps of the Mondragon Group subsidiary management are based on employee participation:

- % employee participation in management.
- % employee participation in benefits.
- % employee ownership participation.

- 
- % production plant benefits dedicated to the local community where the production plant is located.
  - A common culture and a global vision shared internationally among employees.

These objectives will show that the Mondragon Group has interest in transmitting an employee co-operative participation model, but what is even more important that there are specific activities, indicators and departments responsible for achieving these results.



## CHAPTER 4: THE MONDRAGON GROUP EMPLOYMENT GROWTH DATA ANALYSIS. PHASE I

In the following chapter the fieldwork done for phase I of the research project and the results obtained will be analysed<sup>107</sup>. The chapter is divided into the following sections:

- Definition of hypotheses, tests conducted and results obtained:
  - Employment generation and globalisation (H0, H1 and H2)
  - FDI impact on local employment generation (H3 and H4)
  - Type of employment: co-op members and non-members (H5 and H6).
- Data and methodology limitations.
- Overall conclusions and findings on the commitment to employment creation and globalisation:
  - The process of globalisation and commitment to local employment.
  - The process of globalisation as a tool to foster worldwide the capacity of co-operative employment creation capacity worldwide.
  - The impact of globalisation on “co-operative member vs. non-members”, both at parent co-operative and internationally.

### 4.1 HYPOTHESIS DEFINITION, TESTS CONDUCTED AND RESULTS OBTAINED

#### 4.1.1 Hypothesis 1: employment creation in the parent co-operative

##### 4.1.1.1 Definition

“Those co-operatives with at least one production plant abroad create more jobs in the parent co-operative than those without a production plant abroad”. This concerns Mondragon Industrial co-operatives activity during the period 1999-2006 (fig. 4.1).

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<sup>107</sup> A broader understanding on the overall objectives, and methodology used in this Phase I, has been described in Chapter two (see section 2.4).

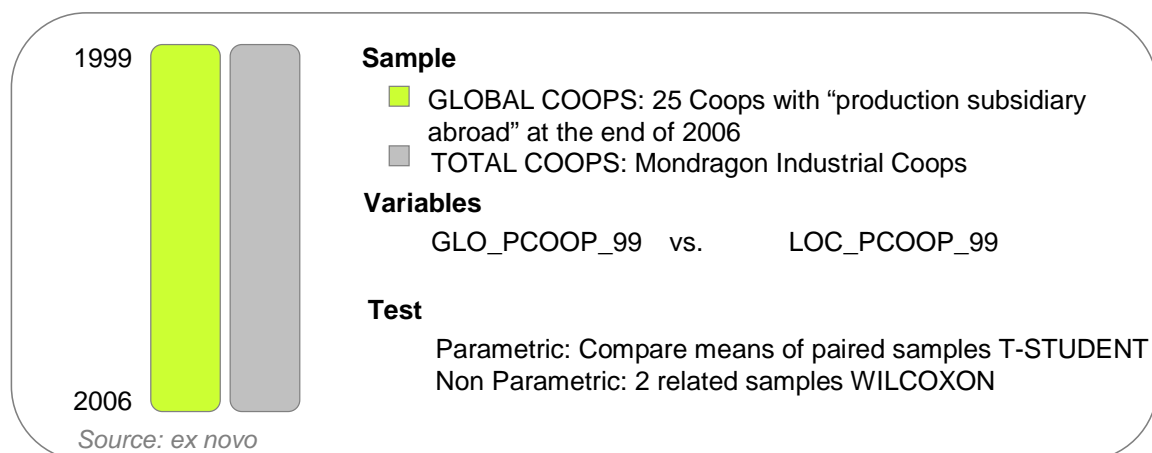
	WORKFORCE AT 31 DEC.			GROWTH 99-06	
	1999	2002	2006	JOBS	%
GLO_PT	13,318	21,049	32,041	18,723	140.58%
GLO_PIN	11,884	15,255	18,123	6,239	52.50%
GLO_PCOOP	11,367	13,832	14,554	3,187	28.04%
LOC_PT	8,595	10,117	10,403	1,808	21.04%
LOC_PIN	8,070	9,970	10,064	1,994	24.71%
LOC_PCOOP	8,010	9,597	9,108	1,098	13.71%

Source: ex novo

**Figure 4.1:** The Mondragon Group industrial division employment growth: Global co-ops vs. Local co-ops (H1)

#### 4.1.1.2 Tests conducted

Based on GLOBAL\_PCOOP and LOCAL\_PCOOP two new variables were defined: GLOBAL\_PCOOP\_99 and LOCAL\_PCOOP\_99. These two variables were used to analyse both groups as a paired sample in two alternative hypotheses concerning distribution: parametric, and non-parametric. The statistical analysis is based on annual paired samples for the period 1999-2006. Following a parametric “normal bivariate distribution” and a non-parametric one, the analysis compares both samples’ “means” in order to measure if a “statistically-significant difference” exists or not, in addition to the direction of the relationship. The parametric distribution uses a T-student test ( $K=n-1$ ). For the non-parametric distribution the Wilcoxon test is used (fig.4.2).



**Figure 4.2:** Phase I: hypothesis 1



Statistical results:

- Parametric test: Compares the means of paired samples (T-STUDENT)

		Paired Differences				t	df	Sig. (2-tailed)	
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower				Upper
Pair 1	GLO_PT_99 - LOC_PT_99	55.88815	43.69599	15.44887	19.35738	92.41891	3.618	7	.009
Pair 2	GLO_PIN_99 - LOC_PIN_99	15.70868	13.49216	4.77020	4.42896	26.98841	3.293	7	.013
Pair 3	GLO_PCOOP_99 - LOC_PCOOP_99	8.44135	9.65319	3.41292	.37108	16.51163	2.473	7	.043

**H1**

Source: ex novo

Figure 4.3: Phase I: Hypothesis 1: Parametric test results

- Non-parametric test: Two related samples (WILCOXON)

	LOC_PT_99 - GLO_PT_99	LOC_PIN_99 - GLO_PIN_99	LOC_PCOOP_99 - GLO_PCOOP_99
Z	-2.366 <sup>a</sup>	-2.366 <sup>a</sup>	-1.859 <sup>a</sup>
Asymp. Sig. (2-tailed)	.018	.018	.063

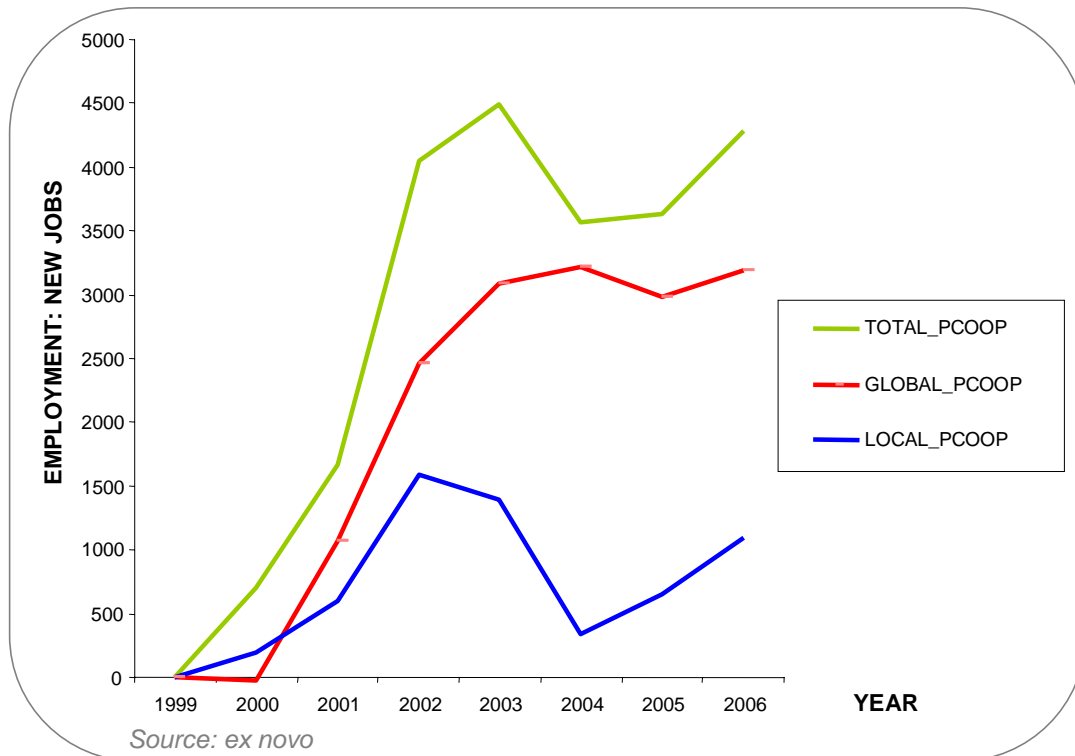
a. Based on positive ranks.  
b. Wilcoxon Signed Ranks Test

Source: ex novo

Figure 4.4: Phase I: Hypothesis 1: Non-parametric test results

4.1.1.3 Results obtained

According to the previous test, the results obtained for H1 confirm that parent co-operative job creation is greater for global co-ops than for local co-ops. Those results are from the test conducted for the period 1999-2006 year by year, assuming a parametric and a non-parametric distribution of GLO\_PCOOP\_99 and LOC\_PCOOP\_99 associated with 95% nominal probability. Hence H1 is accepted: “those co-operatives with at least one production plant abroad create more jobs at their parent co-operative” (fig. 4.3, 4.4 and 4.5).



**Figure 4.5:** The Mondragon Group industrial division net-job growth 1999-2006: At parent co-operatives

The previous test is descriptive, rather than causal; in no case should the findings be interpreted as the existence of production plants abroad to be the sole reason for “greater job creation in the parent co-operative environment”<sup>108</sup>.

#### 4.1.2 Hypothesis 2: employment creation in the local community

##### 4.1.2.1 Definition

“Those co-operatives with at least one production plant abroad create more jobs in their local community”. This concerns Mondragon Industrial co-operatives activity during the period 1999-2006 (fig. 4.6).

<sup>108</sup> A further explanation can be found in chapter 2 in the section on data limitations (see section 2.4.3).

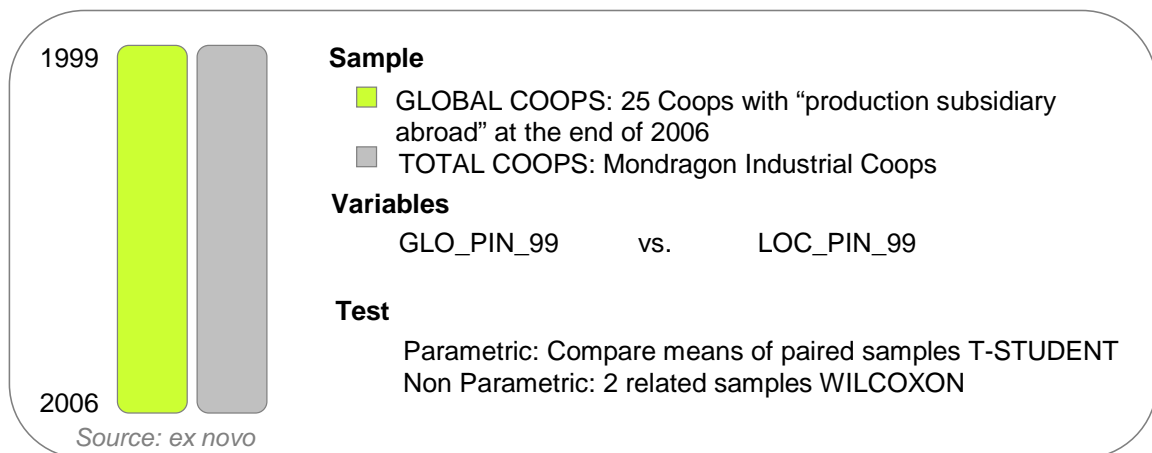
	WORKFORCE AT 31 DEC.			GROWTH 99-06	
	1999	2002	2006	JOBS	%
GLO_PT	13,318	21,049	32,041	18,723	140.58%
GLO_PIN	11,884	15,255	18,123	6,239	52.50%
GLO_PCOOP	11,367	13,832	14,554	3,187	28.04%
LOC_PT	8,595	10,117	10,403	1,808	21.04%
LOC_PIN	8,070	9,970	10,064	1,994	24.71%
LOC_PCOOP	8,010	9,597	9,108	1,098	13.71%

Source: ex novo

**Figure 4.6:** The Mondragon Group industrial division employment growth: Global co-ops vs. Local co-ops (H2)

4.1.2.2 Tests conducted

Based on GLOBAL\_PIN and LOCAL\_PIN, two new variables were defined GLOBAL\_PIN\_99 and LOCAL\_PIN\_99. The two were used to analyse both groups as a paired sample in two alternative hypotheses concerning distribution: parametric and non-parametric, with statistical analysis based on paired samples annually for the period 1999-2006. Following both a parametric “normal bivariant distribution” and a non-parametric one, both samples’ “means” are compared in order to measure if a “statistically-significant difference” exists or not and to know the direction of the relationship. The parametric distribution uses a T-student test (K=n-1). For the non-parametric distribution the Wilcoxon test is used (fig. 4.7).



**Figure 4.7:** Phase I: Hypothesis 2

Statistical results:

- Parametric test: Compares the means of paired samples (T-STUDENT)

		Paired Differences			95% Confidence Interval of the Difference		t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1	GLO_PT_99 - LOC_PT_99	55.88815	43.69599	15.44887	19.35738	92.41891	3.618	7	.009
Pair 2	GLO_PIN_99 - LOC_PIN_99	15.70868	13.49216	4.77020	4.42896	26.98841	3.293	7	.013
Pair 3	GLO_PCOOP_99 - LOC_PCOOP_99	8.44135	9.65319	3.41292	.37108	16.51163	2.473	7	.043

Source: ex novo

**Figure 4.8:** Phase I: Hypothesis 2: Parametric test results

- Non-parametric test: Two related samples (WILCOXON)

	LOC_PT_99 - GLO_PT_99	LOC_PIN_99 - GLO_PIN_99	LOC_PCOOP_99 - GLO_PCOOP_99
Z	-2.366 <sup>a</sup>	-2.366 <sup>a</sup>	-1.859 <sup>a</sup>
Asymp. Sig. (2-tailed)	.018	.018	.063

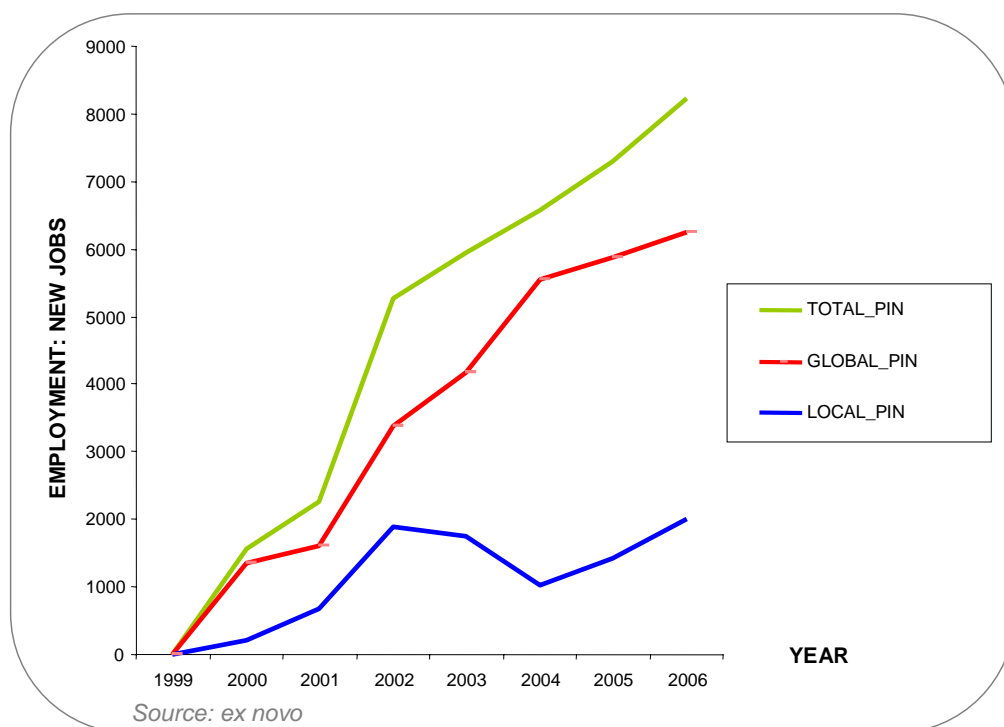
a. Based on positive ranks.  
b. Wilcoxon Signed Ranks Test

Source: ex novo

**Figure 4.9:** Phase I: Hypothesis 2: Non-parametric test results

#### 4.1.2.3 Results obtained

According to the previous test and the results obtained for H2, it can be affirmed that the local community job creation is greater for global co-ops than for local co-ops (fig. 4.10). These results are from the test conducted for the period 1999-2006 year-by-year, assuming a parametric and a non-parametric distribution of GLO\_PIN\_99 and LOC\_PIN\_99 associated with 95% nominal probability. Therefore H2 is accepted: “those co-operatives with at least one production plant abroad create more jobs in the local community” (fig. 4.8 and 4.9).



**Figure 4.10:** The Mondragon Group industrial division net-job growth 1999-2006: At local community

The previous test is descriptive and not causal; in no case the findings should be interpreted as the existence of production plants abroad to be the sole reason for greater job creation in the parent co-operative environment<sup>109</sup>.

### 4.1.3 Hypothesis 3: FDI impact on employment in the parent co-operative

#### 4.1.3.1 Definition

“FDI generates a greater net job growth at the parent co-operative during the three years after the start of FDI”. This concerns Mondragon Industrial co-operatives activity during the period 1999-2006 (fig. 4.11).

<sup>109</sup> A further explanation can be found in chapter 2 in the section on data limitations (see section 2.4.3).

	WORKFORCE AT 31 DEC.				GROWTH 99-06	
	FDI = t	t+1	t+2	t+3	JOBS	%
SW_GLO_PCOOP	5,034	5,322	5,577	5,693	659	13.09%
SW_GLO_PIN	5,660	6,089	6,717	7,171	1,511	26.70%
SW_GLO_PT	5,662	7,372	8,194	9,111	3,449	60.91%
HYPO_LOC_PCOOP	5,034	5,446	5,669	5,637	603	11.99%
HYPO_LOC_PIN	5,660	6,034	6,333	6,416	756	13.36%
HYPO_LOC_PT	5,662	6,036	6,337	6,426	764	13.50%

Source: ex novo

**Figure 4.11:** FDI impact on the Mondragon Group net-job growth: SW Global co-ops vs. Hypo co-ops (H3)

In order to measure the specific impact of FDI on co-operative employment, SW global co-ops have to be selected. Therefore, we have selected those global co-ops in 2004 that were local co-ops in 1999 (fig. 4.12). It can be maintained that those co-operatives which took on their first FDI (opening their first production plant abroad) during the period analysed (1999-2006), switched from local to global co-ops (SW global co-ops).

SW-GLOBALCOOPS	YEAR FIRST FDI	WORKFORCE DEC. 2006	
		PT	PEX
FAGOR INDUSTRIAL	1999	1,403	367
FAGOR AUTOMATION		662	172
MAIER		1,792	221
EIKA	2000	1,360	774
DIKAR WINGROUP		424	330
LKS	2001	293	22
FAGOR EDERLAN		3,727	614
MATZ ERREKA	2002	295	43
CIKAUTXO		1,274	459
DANOBAT		352	83
SORALUCE		231	41
ORKLI	2004	697	135

Source: ex novo

**Figure 4.12:** The Mondragon Group SW global co-ops (k=12)

4.1.3.2 Test conducted

In accordance with to SWI and LDID:

$$\hat{\alpha}_{SWI} = [\Delta \bar{L}_{it+3}^1 \sim \Delta \bar{L}_{it+3}^0]$$

$$\hat{\alpha}_{LDID} = [\Delta \bar{L}_{it+3}^1 \sim \Delta \bar{L}_{it-3}^1] \bar{I} [\Delta \bar{L}_{it+3}^0 \sim \Delta \bar{L}_{it-3}^0]$$

The SW\_GLOBAL\_PCOOP and HYPO\_PCOOP were the two variables used to analyse both groups as a paired sample in two alternative hypotheses concerning distribution: parametric and non-parametric. This statistical analysis is based on paired samples for every SW global co-op. Following both a parametric “normal bivariant distribution” and a non-parametric one, both samples “means” have been compared in order to measure if a “statistically-significant difference” exists or not, and to know the direction of the relationship. The parametric distribution used a T-student test with K=12. For the non-parametric distribution the Wilcoxon test is used (fig.4.13).

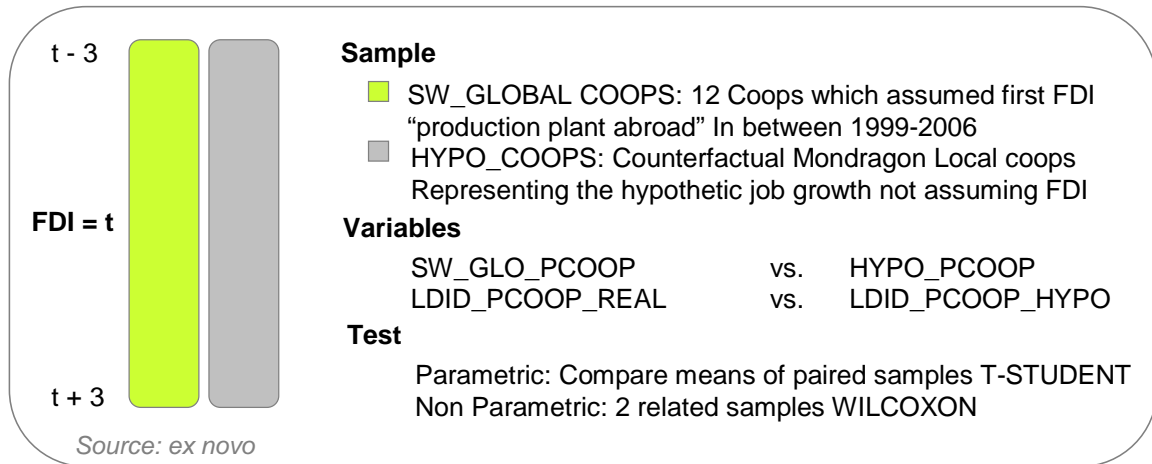
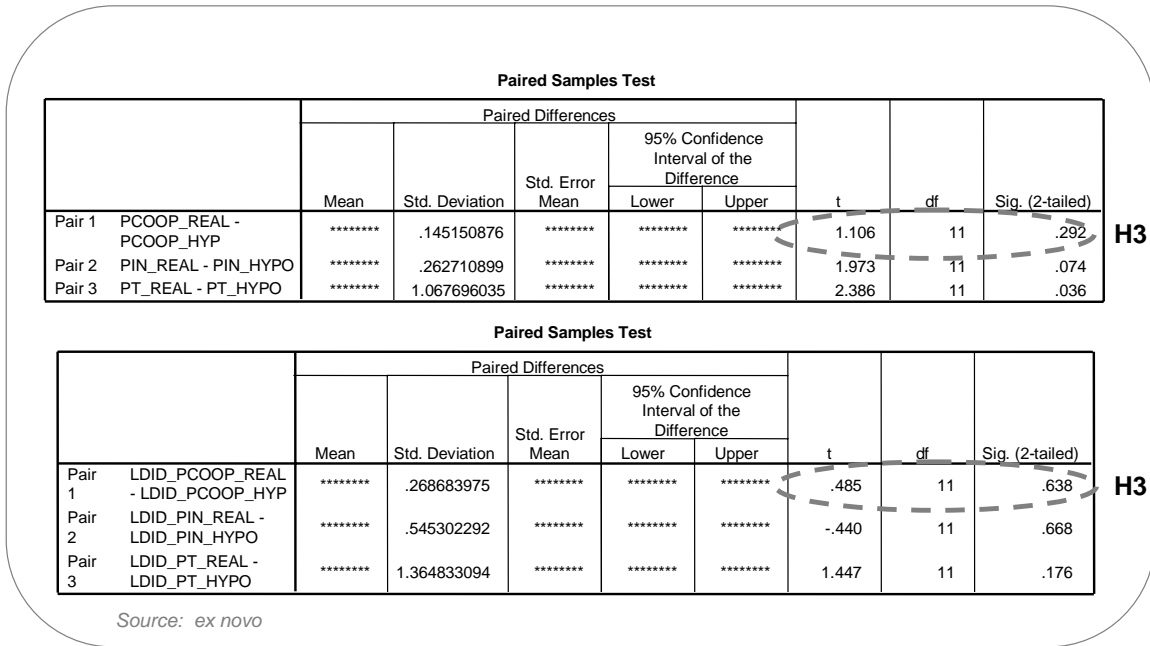


Figure 4.13: Phase I: Hypothesis 3

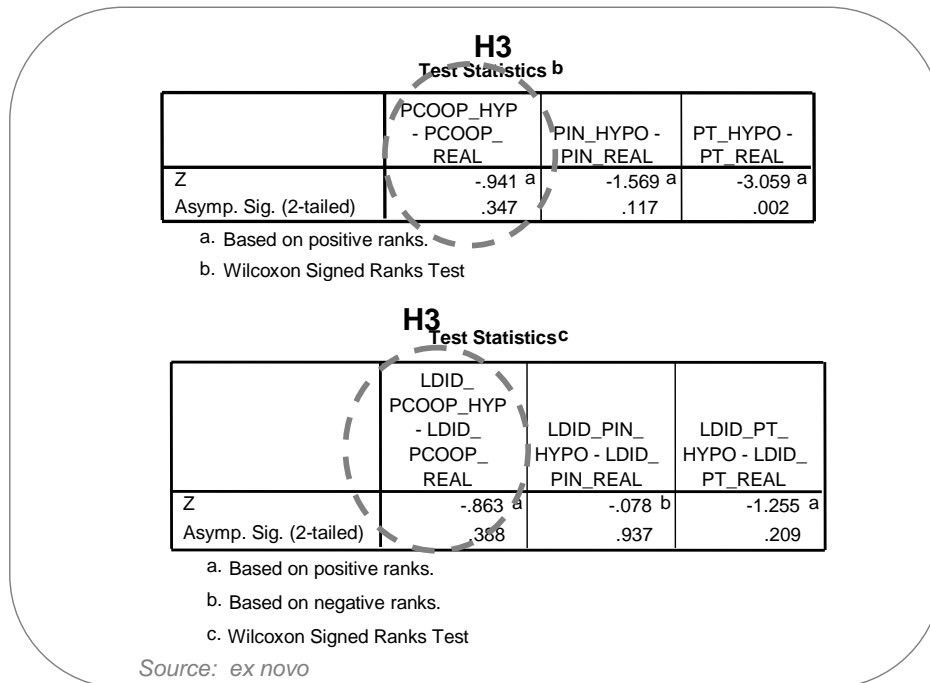
Statistical results:

- Parametric test: Compares the means of paired samples (T-STUDENT)



**Figure 4.14:** Phase I: Hypothesis 3: Parametric tests results

- Non-parametric test: Two related samples (WILCOXON)



**Figure 4.15:** Phase I: Hypothesis 3: Non-parametric tests results



#### 4.1.3.3 Results obtained

According to the previous test and the results obtained for H3, it is impossible to affirm that the parent co-operative is greater for SW global co-ops than for the hypothetical local co-ops. This results from the test conducted year-by-year during the three years after the start of FDI commenced assuming a parametric and non-parametric distribution of SW\_GLO\_PCOOP, LDID\_PCOOP\_REAL, SW\_GLO\_PCOOP and LDID\_PCOOP\_HYPO associated with 90% nominal probability (fig. 4.14 and 4.15). Therefore H3 is not accepted: “FDI does not generate a greater net job growth in the parent co-operative during the three years after the start of FDI”. Even the accumulated growth observed is greater for SW\_GLOBAL\_CO-OPS than HYPO\_LOCAL\_CO-OPS (13.09% > 11.9%); this difference is not significant enough to be accepted with 90% probability.

#### 4.1.4 Hypothesis 4: FDI impact on employment in the local community

##### 4.1.4.1 Definition

“FDI generates a greater net job growth in the local community during the three years after the start of FDI”. This concerns Mondragon Industrial co-operatives activity during the period 1999-2006 (fig. 4.16).

	WORKFORCE AT 31 DEC.				GROWTH 99-06	
	FDI = t	t+1	t+2	t+3	JOBS	%
SW_GLO_PCOOP	5,034	5,322	5,577	5,693	659	13.09%
SW_GLO_PIN	5,660	6,089	6,717	7,171	1,511	26.70%
SW_GLO_PT	5,662	7,372	8,194	9,111	3,449	60.91%
HYPO_LOC_PCOOP	5,034	5,446	5,669	5,637	603	11.99%
HYPO_LOC_PIN	5,660	6,034	6,333	6,416	756	13.36%
HYPO_LOC_PT	5,662	6,036	6,337	6,426	764	13.50%

Source: ex novo

**Figure 4.16:** FDI impact on the Mondragon Group net-job growth: SW global co-ops vs. hypo co-ops (H4)

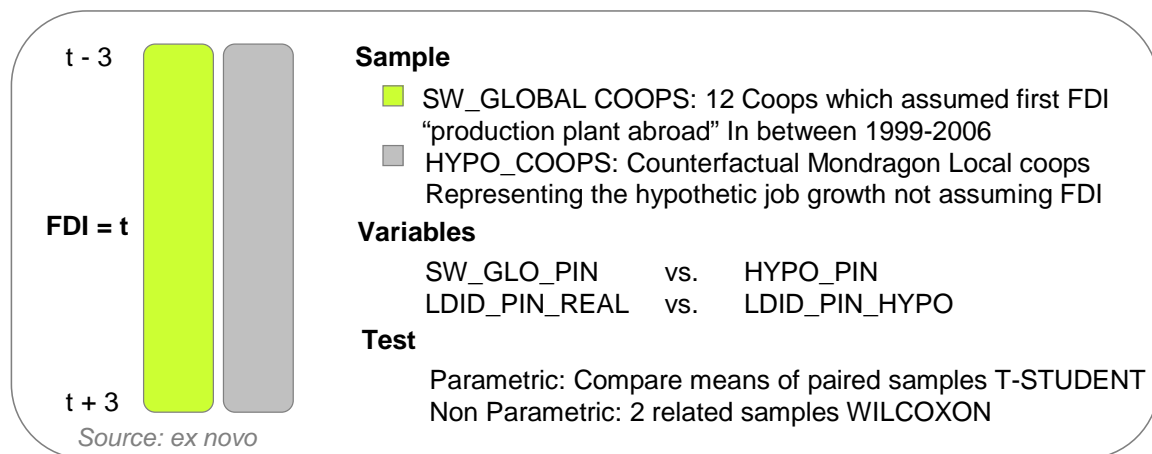
## 4.1.4.2 Test conducted

According to SWI and LDID:

$$\hat{\alpha}_{SWI} = [\Delta \bar{L}_{it+3}^1 \quad \Delta \bar{L}_{it+3}^0]$$

$$\hat{\alpha}_{LDID} = [\Delta \bar{L}_{it+3}^1 \quad \Delta \bar{L}_{it-3}^1] [\Delta \bar{L}_{it+3}^0 \quad \Delta \bar{L}_{it-3}^0]$$

The two variables SW\_GLOBAL\_PIN and HYPO\_LOCAL\_PIN have been used to analyse both groups as a paired sample in two alternative hypotheses, once more, about the distribution: parametric and non-parametric. The statistical analysis concerns “paired samples” for every SW global co-ops. Following both a parametric “normal bivariate distribution” and a non-parametric one, both samples “means” are compared in order to determine if a “statistically-significant difference” exists or not, and to know the direction of the relationship. The parametric distribution uses a T-student test with  $K=12$ ; for the non-parametric distribution the Wilcoxon test is used (fig. 4.17).



**Figure 4.17:** Phase I: Hypothesis 4

Statistical results:

- Parametric test: Compares the means of paired samples (T-STUDENT)

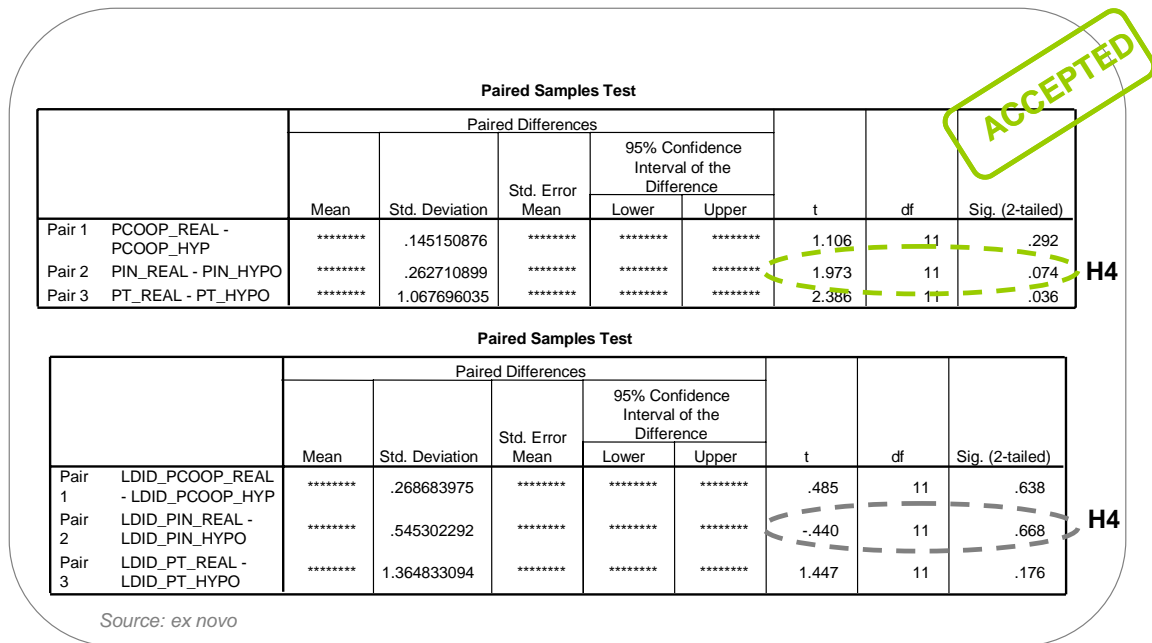


Figure 4.18: Phase I: Hypothesis 4: Parametric tests results

- Non-parametric test: Two related samples (WILCOXON)

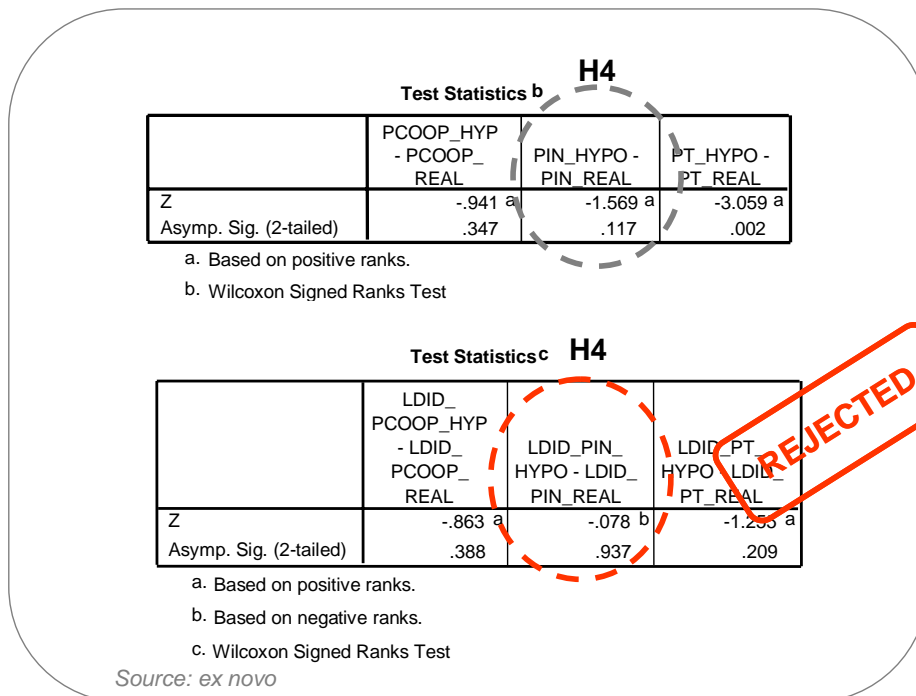
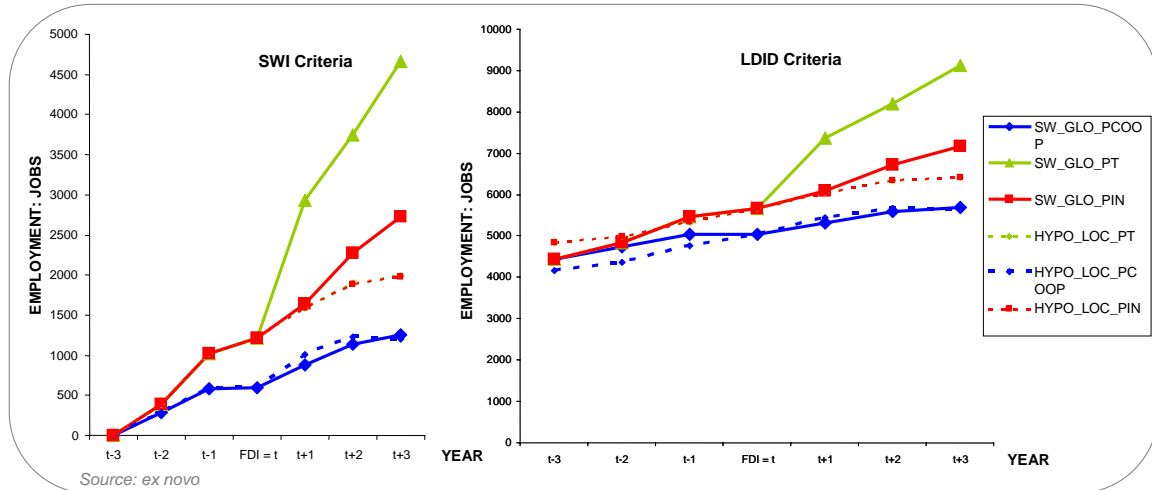


Figure 4.19: Phase I: Hypothesis 4: Non-parametric test results

#### 4.1.4.3 Results obtained

As in the previous test, the results obtained for H4 affirm that local community job growth is greater for SW global co-ops than for hypothetical local co-ops (fig. 4.20). These results during the three years after the first FDI assuming a parametric and a non-parametric distribution of SW\_GLO\_PIN and SW\_GLO\_PIN associated with 90% nominal probability (fig. 4.18 and 4.19).

H4 proposes that FDI generates a greater net job growth in the parent co-operative during the three years after the start of FDI. The accumulated growth observed is greater for SW\_GLOBAL\_CO-OPS than for HYPO\_LOCAL\_CO-OPS (52.4% > 24.71%). According to the results obtained with the LDID estimator, it cannot be said that FDI generates a greater net job growth in the parent co-operative during the three years after the start of FDI (fig. 4.19). The reason for these results might involve the size of the sample  $K=12$ , in addition to the behaviour of the counterfactual criteria used, that do not behave accurately on  $t-3$ . The same test should be replicated, involving use of a greater sample and a different counterfactual.



**Figure 4.20:** The Mondragon Group SW global co-ops net-job growth (From FDI  $t-3$  to FDI  $t+3$ )

#### 4.1.5 Hypothesis 5: co-operative members out of the total workforce at the parent co-operative

##### 4.1.5.1 Definition

“Those co-operatives with at least one production plant abroad do not necessarily have a smaller amount of members out of the total workforce in their parent co-operative”. This concerns Mondragon Industrial co-operatives activity during the period 1999-2006 (fig. 4.21).

	WORKFORCE AT 31 DEC.			GROWTH 99-06	
	1999	2002	2006	JOBS	%
<b>GLO_MEM</b>	8,977	11,174	12,257	<b>3,280</b>	<b>36.54%</b>
GLO_MEM/PT	67.41%	53.09%	38.25%	-	-
GLO_MEM/PIN	75.54%	73.25%	67.63%	-	-
GLO_MEM/PCOOP	78.97%	80.78%	84.22%	-	-
<b>LOC_MEM</b>	4,724	6,133	6,822	<b>2,098</b>	<b>44.41%</b>
LOC_MEM/PT	54.96%	60.62%	65.58%	-	-
LOC_MEM/PIN	58.54%	61.51%	67.79%	-	-
LOC_MEM/PCOOP	58.98%	63.91%	74.90%	-	-

Source: ex novo

**Figure 4.21:** The Mondragon Group industrial division membership evolution: members vs. non members (H5)

##### 4.1.5.2 Test conducted

Based on GLOBAL\_MEM/PCOOP and LOCAL\_MEM/PCOOP, two new variables were defined: GLOBAL\_MEM/PCOOP\_99 and LOCAL\_MEM/PCOOP\_99. These four variables were used to analyse both groups as a paired sample in two alternative hypotheses about the distribution: parametric and non-parametric, with statistical analysis based on “paired samples” annually for the period 1999-2006. The test has followed a parametric “normal bivariate distribution” and a non-parametric one, comparing both samples’ “means” in order to measure if a “statistically-significant difference” exists or not, as well as the direction of the relationship. The parametric distribution involved a T-student test with  $K=n-1$ ; for the non-parametric distribution the Wilcoxon test is used (fig. 4.22).

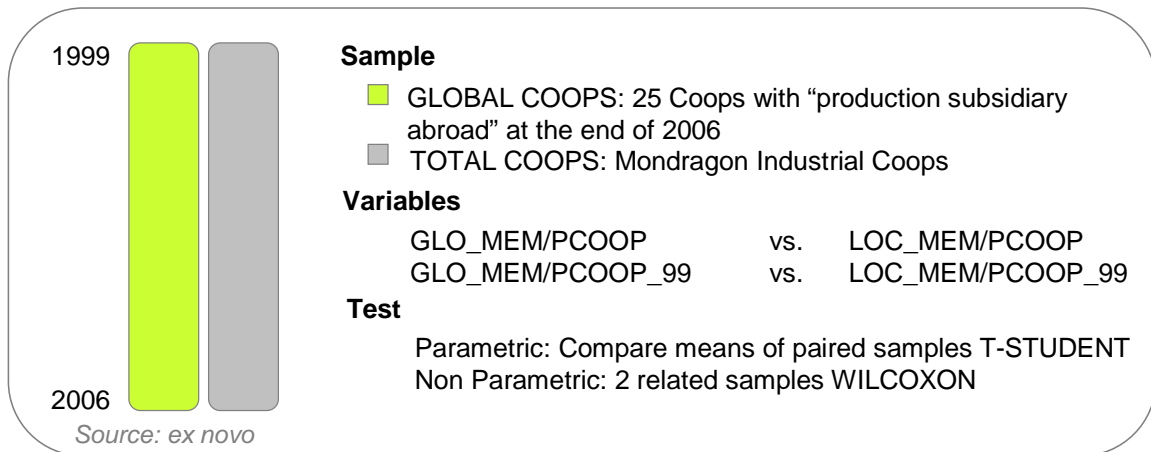


Figure 4.22: Phase I: Hypothesis 5

Statistical results:

- Parametric test: Compares the means of paired samples (T-STUDENT)

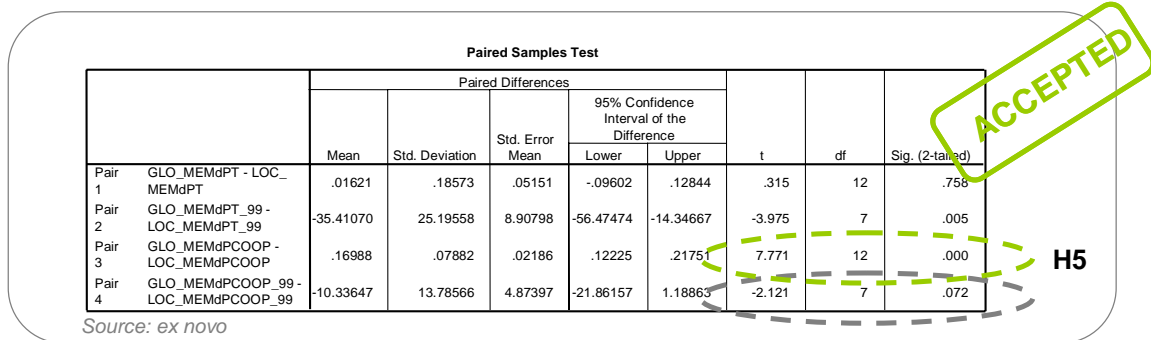


Figure 4.23: Phase I: Hypothesis 5: Parametric test results

- Non-parametric test: Two related samples (WILCOXON)

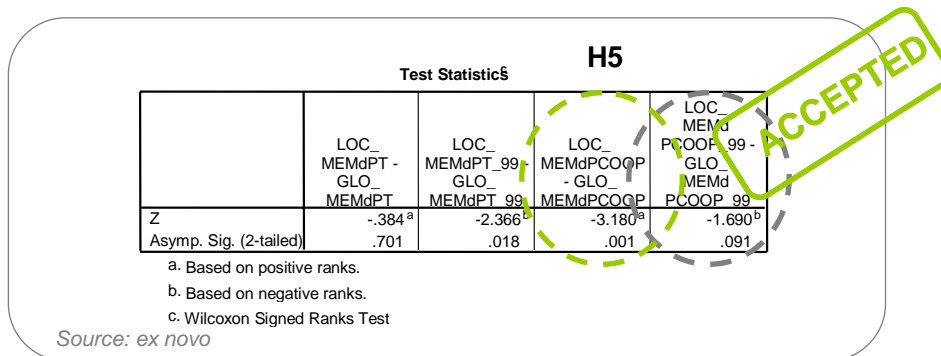


Figure 4.24: Phase I: Hypothesis 5: Non-parametric test results

#### 4.1.5.3 Results obtained

According to the previous test, the results obtained for H5 affirm that the “amount of members over total workforce in the parent co-operative” is not necessarily smaller for global co-ops than for local co-ops, measured year-by-year for the period of 1999-2006. This has been concluded assuming a non-parametric distribution of GLO\_MEM/PCOOP and LOC\_MEM/PCOOP associated with 95% nominal probability (fig. 4.23 and 4.24).

Therefore, H5 is accepted: “those co-operatives with at least one production plant abroad do not necessarily have a smaller amount of members out of the total workforce in their parent co-operative”.

According to the results obtained with GLO\_MEM/PCOOP\_99 and LOC\_MEM/PCOOP\_99, we affirm that the GLO\_MEM/PCOOP (from 78.97% to 84.22%) does not grow in the same degree as the LOC\_MEM/PCOOP (from 58.98% to 84.22%).

The previous test is descriptive and not causal; therefore, in no case should the findings be understood as deeming that the existence of production plants abroad is the sole reason for greater number of co-operative members (MEM) over parent co-operative employees (PCOOP)<sup>110</sup>.

#### **4.1.6 Hypothesis 6: co-operative members out of the total workforce at the global co-operative**

##### 4.1.6.1 Definition

“Those co-operatives with at least one production plant abroad do not necessarily have a smaller amount of members out of (the) total workforce internationally”. This concerns Mondragon Industrial co-operatives activity during the period 1999-2006 (fig. 4.25).

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<sup>110</sup> A further explanation can be found in chapter 2 in the section on data limitations (see section 2.4.3).

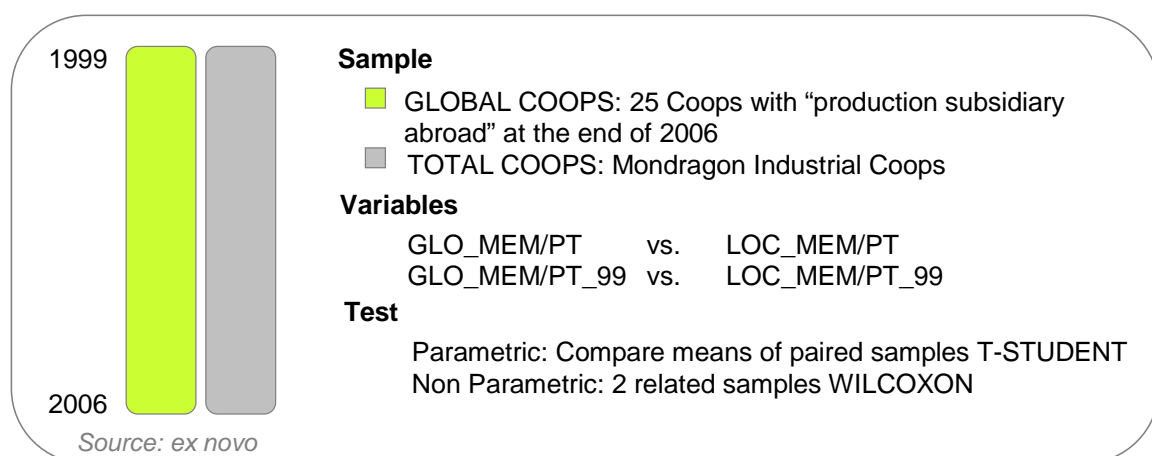
	WORKFORCE AT 31 DEC.			GROWTH 99-06	
	1999	2002	2006	JOBS	%
<b>GLO_MEM</b>	8,977	11,174	12,257	<b>3,280</b>	<b>36.54%</b>
GLO_MEM/PT	67.41%	53.09%	38.25%	-	-
GLO_MEM/PIN	75.54%	73.25%	67.63%	-	-
GLO_MEM/PCOOP	78.97%	80.78%	84.22%	-	-
<b>LOC_MEM</b>	4,724	6,133	6,822	<b>2,098</b>	<b>44.41%</b>
LOC_MEM/PT	54.96%	60.62%	65.58%	-	-
LOC_MEM/PIN	58.54%	61.51%	67.79%	-	-
LOC_MEM/PCOOP	58.98%	63.91%	74.90%	-	-

Source: ex novo

**Figure 4.25:** The Mondragon Group industrial division membership evolution: members vs. non members (H6)

#### 4.1.6.2 Test conducted

Based on GLOBAL\_MEM/PT and LOCAL\_MEM/PT, two new variables were defined: GLOBAL\_MEM/PT\_99 and LOCAL\_MEM/PT\_99. These four variables were used to analyse both groups as a paired sample in two alternative hypotheses about the distribution: parametric and non-parametric; statistical analysis was based on paired samples annually for the period 1999-2006. This follows both a parametric “normal bivariant distribution” and a non-parametric one, comparing both samples’ “means” in order to determine if a “statistically-significant difference” exists or not, as well as the direction of the relationship. The parametric distribution drew on a T-student test with  $K=n-1$ ; for the non-parametric distribution the Wilcoxon test is used (fig. 4.26).



**Figure 4.26:** Phase I: Hypothesis 6



Statistical results:

- Parametric test: Compares the means of paired samples (T-STUDENT)

		Paired Differences			95% Confidence Interval of the Difference		t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1	GLO_MEMdPT - LOC_MEMdPT	.01621	.18573	.05151	-.09602	.12844	.315	12	.753
Pair 2	GLO_MEMdPT_99 - LOC_MEMdPT_99	-35.41070	25.19558	8.90798	-56.47474	-14.34667	-3.975	7	.005
Pair 3	GLO_MEMdPCOOP - LOC_MEMdPCOOP	.16988	.07882	.02186	.12225	.21751	7.771	12	.000
Pair 4	GLO_MEMdPCOOP_99 - LOC_MEMdPCOOP_99	-10.33647	13.78566	4.87397	-21.86157	1.18863	-2.121	7	.072

REJECTED

H6

Source: ex novo

Figure 4.27: Phase I: Hypothesis 6: Parametric test results

- Non-parametric test: Two related samples (WILCOXON)

	LOC_MEMdPT - GLO_MEMdPT	LOC_MEMdPT_99 - GLO_MEMdPT_99	LOC_MEMdPCOOP - GLO_MEMdPCOOP	LOC_MEMdPCOOP_99 - GLO_MEMdPCOOP_99
Z	-.384 <sup>a</sup>	-2.366 <sup>b</sup>	-3.180 <sup>a</sup>	-1.690 <sup>b</sup>
Asymp. Sig. (2-tailed)	.701	.018	.001	.091

a. Based on positive ranks.  
 b. Based on negative ranks.  
 c. Wilcoxon Signed Ranks Test

REJECTED

Source: ex novo

Figure 4.28: Phase I: Hypothesis 6: Parametric test results

4.1.6.3 Results obtained

According to the previous test, the results obtained for H6 affirm that the “amount of members over total workforce internationally” is necessarily smaller for “global co-operatives” than “local co-operatives”, measured year-by-year for the period of 1999-2006 associated with 95% nominal probability, assuming a parametric and non-parametric distribution of GLO\_MEM/PT, GLO\_MEM/PT\_99 and LOC\_MEM/PT, LOC\_MEM/PT\_99 (fig. 4.27 and 4.28).

The H6 is hence rejected: “those co-operatives with at least one affiliated production plant abroad necessarily have a smaller amount of members out of total workforce internationally”.

The previous test is descriptive and not causal; therefore in no case should the findings be understood as deeming that the existence of production plants abroad is the sole reason for smaller number of co-operative members (MEM) over total employees (PT)<sup>111</sup>.

#### 4.2 OVERALL CONCLUSIONS AND FINDINGS IN EMPLOYMENT GENERATION COMMITMENT AND GLOBALISATION

Phase I analysis demonstrates quantitatively:

- The international production multi-localisation strategy for dealing with the globalisation threats to the stability of the community by downsizing and de-localisation. This is based on the analysis of the Mondragon Group activity during 1999-2006.
- Mondragon parent co-operatives with foreign production plants (global co-ops), have a greater net job growth than Mondragon local co-ops at parent co-operatives (28% > 14%). This took place in the local community (52% > 25%) and in the global one (141% > 21%) during the period analysed: 1999-2006 (H1 and H2).
- Mondragon co-operatives' FDI has a direct and positive impact on employment growth in the local community (26.7% > 13.36%) and a similar behaviour in the parent co-operative (13.09% > 11.95%) during the three years after the start of FDI investment (H3 and H4).
- The Mondragon global co-ops amount of co-operative members over the total international workforce has been strongly affected by the policies of international affiliated companies (H5).
- The amount of Mondragon global co-ops members out of the total workforce at parent co-operatives has not been significantly affected by such international affiliated policy (H6). At the end of 2006 the percentage of co-operative members over the parent co-operative workforce was higher for global co-ops than local co-ops (84% > 75%).

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<sup>111</sup> A further explanation can be found in chapter 2 in the section on data limitations (see section 2.4.3).

The previous conclusions are consistent with place-based ownership models as a more effective counterforce to the threats of globalisation to community stability (Imbroscio, Williamson and Alperovitz 2003). Mondragon co-operatives have not only maintained but also created new jobs in the respective local community. FDI does not necessarily result in parent company jobs destruction (Barba Navaretti and Castellani 2004). In the case of Mondragon industrial co-operatives, not only FDI does not necessarily result in parent co-operative job destruction but also there is a positive relationship between FDI and job creation.

Horizontal integration has been the main reason for co-operative multi-localisation abroad in Brazil, Mexico, India or Turkey. China and some specific cases in East Central Europe respond to concurrent horizontal and vertical integration<sup>112</sup>.

### **Phase I: Final Conclusions**

The results obtained while analysing the Mondragon Group activity may conclude that those co-operatives which follow an international multi-location strategy created more employment, in the parent co-operative locally and internationally, than those that did not follow the international production strategy (fig. 4.29 and 4.31).

Evolving from a local co-operative structure to a global co-operative one is having an impact that needs to be taken into account, especially the one related to employee participation in management, profits and ownership at production plants abroad. Nonetheless, the capacity of global co-operatives to create new co-operative members reflects the efficiency for total and co-operative job creation as a result of this global strategy.

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<sup>112</sup> It can be said that jobs abroad, even in LDCs, are not especially unskilled ones. The general managers of 30% of the production plants in such countries are local; in addition, as an average only one senior manager from the parent co-operative works there. Hence, local teams are the driving force in the production plants. Chapter 6 will analyse in detail these statements.

	TOTAL COOPS	GLOBAL COOPS	LOCAL COOPS
<b>PT</b>	20,531	18,723	1,808
<b>%</b>	93.69%	140.58%	21.04%
<b>PIN</b>	8,233	6,239	1,994
<b>%</b>	41.26%	52.50%	24.71%
<b>PCOOP</b>	4,285	3,187	1,098
<b>%</b>	22.11%	28.04%	13.71%

*Source: ex novo*

**Figure 4.29:** The Mondragon Group industrial division net-job growth: Total co-ops – Global co-ops and Local co-ops

The conclusion could be that globalisation, including not only international sales or international purchases but also international multi-localisation production plants through FDI, is a successful strategy that has been implemented by co-operatives in favour of the worker co-operatives' main social commitment; this strategy seeks “to create new employment and to create co-operative employment”.

The international multi-localisation strategy results not only in enhanced employment, measured by net job growth, but also in improved financial performance (according to the Mondragon Group Headquarters) (fig. 4.30).

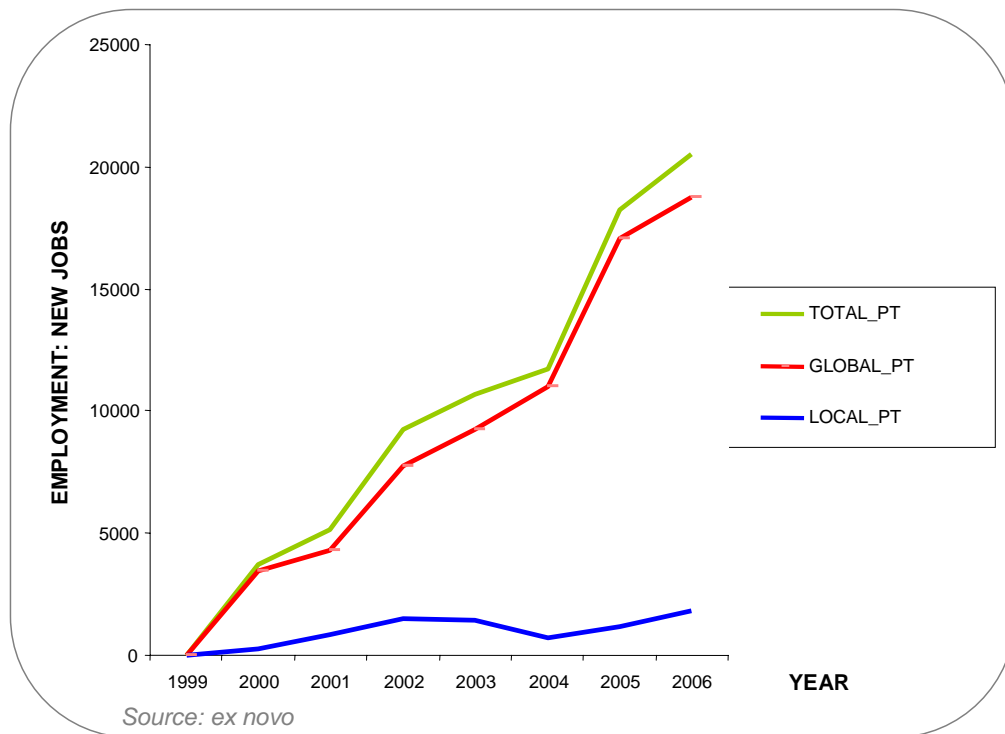
	ECONOMIC GROWTH 1999-2006	
	TOTAL COOPS	GLOBAL COOPS
Total sales	155%	294%
EBITDA	144%	294%
International Sales	204%	554%

*Source: ex novo, adaptation from MCC 2007*

**Figure 4.30:** The Mondragon Group industrial division economic growth: global co-ops vs. local co-ops

On one hand globalisation appears as a significant threat to local traditional community stability and to co-operative structure. On the other, it also strengthens the capacity for

wealth creation through employment growth<sup>113</sup> in economically developed countries and in emerging ones. The Mondragon Group created 20,531 new jobs since 1999 in the former and 12.298 in the latter.



**Figure 4.31:** The Mondragon Group industrial division net-job growth 1999-2006: Total employees (Co-op + Local + Abroad)

However, assuming the Mondragon Group co-operative experience with a broader dimension than just employment growth, in Chapter 6 and 7 we will present a study about the reality of the 65 production plants abroad and about the current challenges they encounter while evolving from infancy to maturity. Once the “*what is happening?*” dimension has been tackled, in the following phases (II & III) we will deal with the “*how*” analysis: how the 25 global co-ops and their production plants are leading the Mondragon Group globalisation process.

<sup>113</sup> As mentioned previously, this contribution is considered by J.M. ORMAECHEA, co-founder of Ulgor, the first co-operative in Mondragon, arguably the most important contribution of co-operatives to society. Additionally, according to A. KARNANI 2006 “*Fortune at the bottom of the pyramid: a mirage*”, creating opportunities of steady employment at reasonable wages is the best way to eradicate poverty.



## CHAPTER 5: STRATEGIC ANALYSIS OF GLOBAL CO-OPERATIVES. PHASE II-a

### Introduction

Chapter five is the third chapter of the empirical analysis of the research project. In chapter four we examined the “*what is happening?*” dimension to Mondragon Group job creation (1999-2006), and to the subsequent impact of globalisation. Based on Mondragon co-operative activity, the conclusion is that globalisation emerges as a successful strategy not only for economic growth, but also for co-operatives employment creation. Global co-ops had a greater net job growth at the parent co-operative, both in their local community and abroad, than those local co-ops which did not possess a FDI on a production plant abroad.

In chapter five we will analyse “*how*” Mondragon global co-ops are leading the Mondragon globalisation process; the phase II analysis is in accordance with the research project methodology framework (see section 2.5.1). This chapter analyses the international strategy of those 25 global co-ops during the period 1996-2006, mapping their international multi-localisation activity by timing and by respective country. This analysis will conclude in chapter six with an outline of the successful factors, incentives and barriers in the globalisation of the co-operatives, drawing from 115 interviews conducted to Mondragon employees at production plants abroad.

### 5.1 CHAPTER STRUCTURE

The chapter is divided into the following sections:

- Overall objectives and phase II methodology framework.
- Understanding international strategies at the global co-ops.
  - Mapping the international strategy of the global co-ops.
  - Mapping the strategy of the global co-ops by timing.
  - Mapping the strategy of global co-ops by country.

## 5.2 OVERALL OBJECTIVES

The main objective of this phase is to analyse how Mondragon global co-ops are facing their globalisation process. First of all, based on international activity data from the global co-ops during the period 1999-2006, the chapter presents an overall understanding of their internationalisation process. Then the global co-ops activity is specifically analysed, mapping international strategy based on time- and location-specific implementation. At the end we describe the strategy of global co-ops by country (China, Poland, Mexico, Brazil, the Czech Republic, the Slovak Republic, India and briefly Russia and Turkey)<sup>114</sup>.

## 5.3 OVERALL UNDERSTANDING OF THE MONDRAGON GLOBALISATION STRATEGY

In this section the Mondragon Group internationalisation process as a whole is being analysed, highlighting the main traits of international strategy as an industrial group.

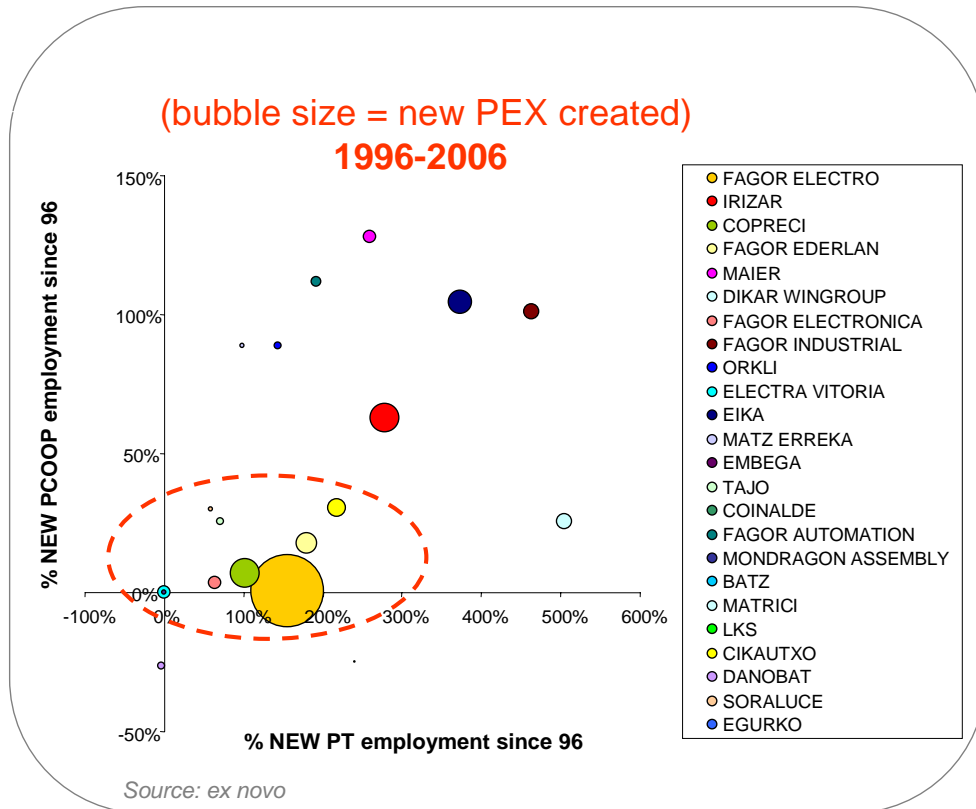
### 5.3.1 A defensive global reactive strategy

According to empirical evidence collected, the main reason for most of Mondragon co-operatives international multi-localisation production has been to defend the local jobs at parent co-operatives. The majority of the new jobs created abroad (bubble size = new jobs abroad), during the period 1996-2006, corresponds to co-operatives at which employment at the parent co-operatives has been slightly increased (less than 30%); the primary reason for this growth is the achievement of a global dimension that justifies in the mid- to long-term parent co-operative.

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<sup>114</sup> Our main source of information is a result of 115 personal interviews conducted during the period 2003-2007 with Mondragon Group co-operatives managers and employees abroad. For more details, see 2.5.1 in Chapter 2.

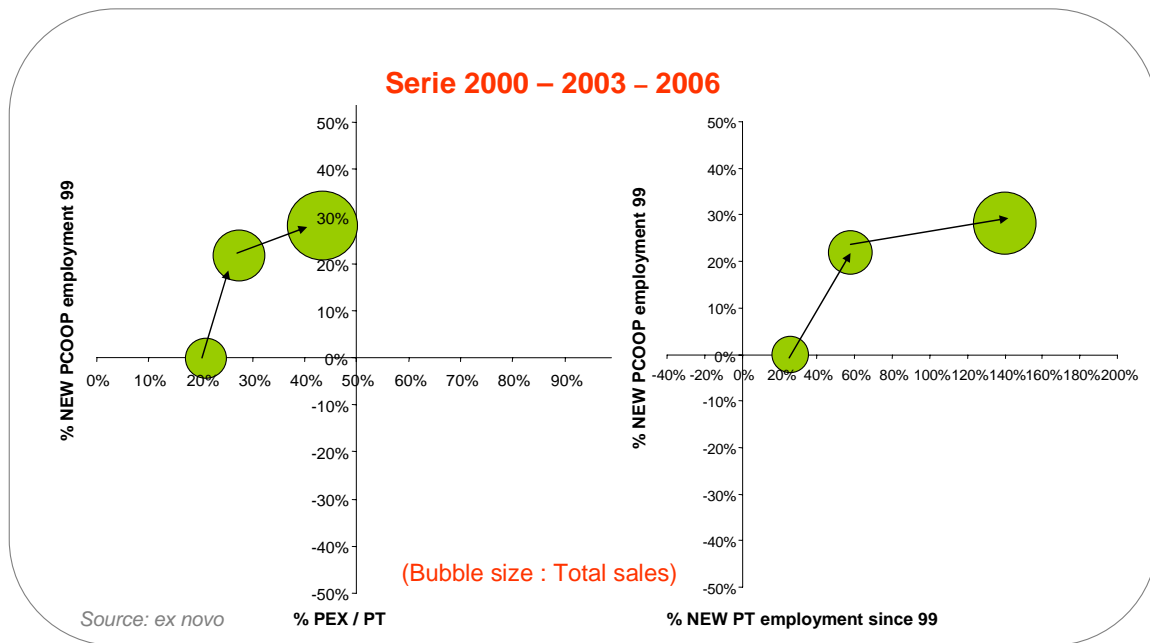




**Figure 5.1:** The Mondragon Group global defensive strategy

Such a conclusion is consistent with the Mondragon Group international department statement, affirming that the main goal for multi-localisation is to defend parent co-operative employment. According to the international strategy of the global co-ops, there exists a positive evolution of employment growth at the parent co-operative abroad (fig.5.1) (consistent with results obtained in phase I, H1 & H2).

Seeking to provide an answer to the international concerns of the Mondragon co-operative managers, the question emerged of how many new jobs were required to be created abroad to maintain one job at home. What can be calculated is that on average five new jobs need to be created abroad, for one at the parent co-operative.



**Figure 5.2:** The Mondragon Group net-job growth: parent co-op. vs. abroad

Parent co-operative net job growth is greater before 2003 (fig. 5.2) and it is consistent with the statement that the Mondragon Industrial blue collar workforce has reached its maximum level at the parent co-operatives (of which near-future monitoring is a highly-arguable necessary requirement).

### 5.3.2 A sales market-oriented strategy

An international multi-localisation strategy through FDI may respond to horizontal (HFDI) or vertical (VFDI) integration, or indeed a combination of both. Mondragon defensive strategy during 1996-2006 is based mainly on HFDI, with international, new greenfield projects, joint ventures or company purchases providing access to foreign markets. A positive relationship, it might be argued, exists as regards the total sales increase, the weight of international sales and the growth in the number of employees abroad (fig. 5.3). Thus, it could be said that the strategy of the 25 Mondragon co-ops is rooted in a successful new market share growth.

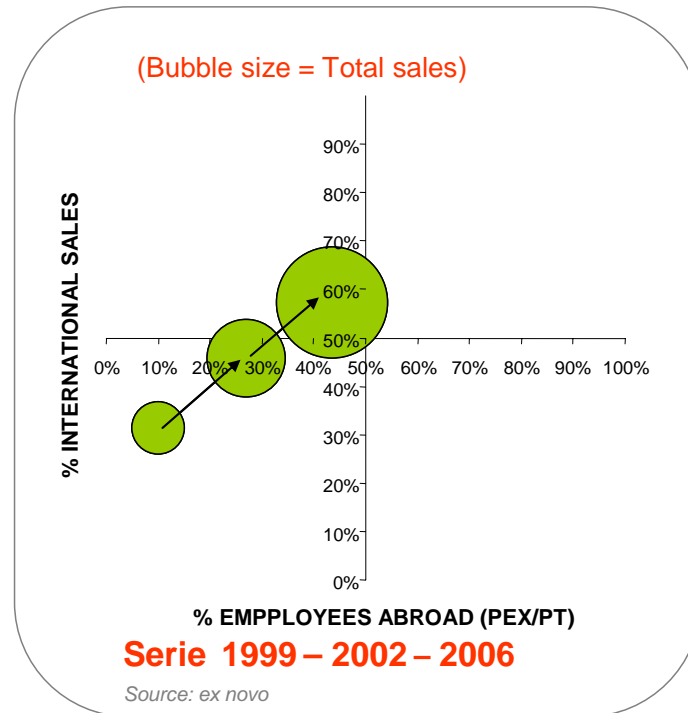


Figure 5.3: The Mondragon Group international markets oriented strategy

### 5.3.3 A diverse and non-unified strategy

Consistent with co-operative autonomy (see 3.3.1), among the 25 Mondragon global co-ops there exists a wide diversity of global strategies. At the end of 2006 it was possible to identify global co-ops in all potential scenarios according to the respective internationalisation process classification (fig. 5.4).

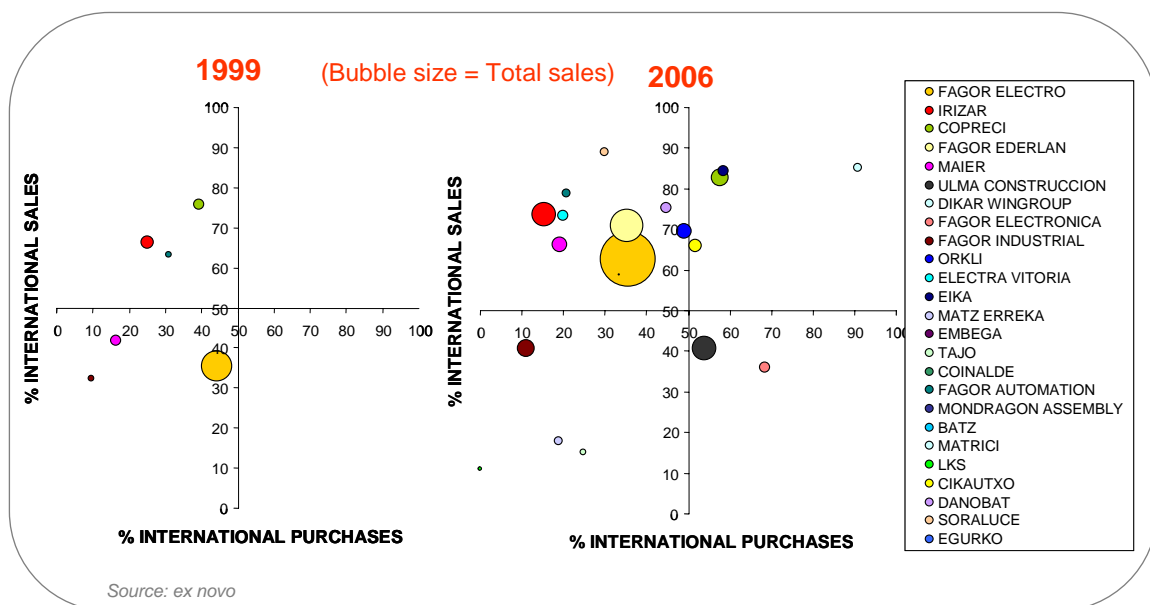
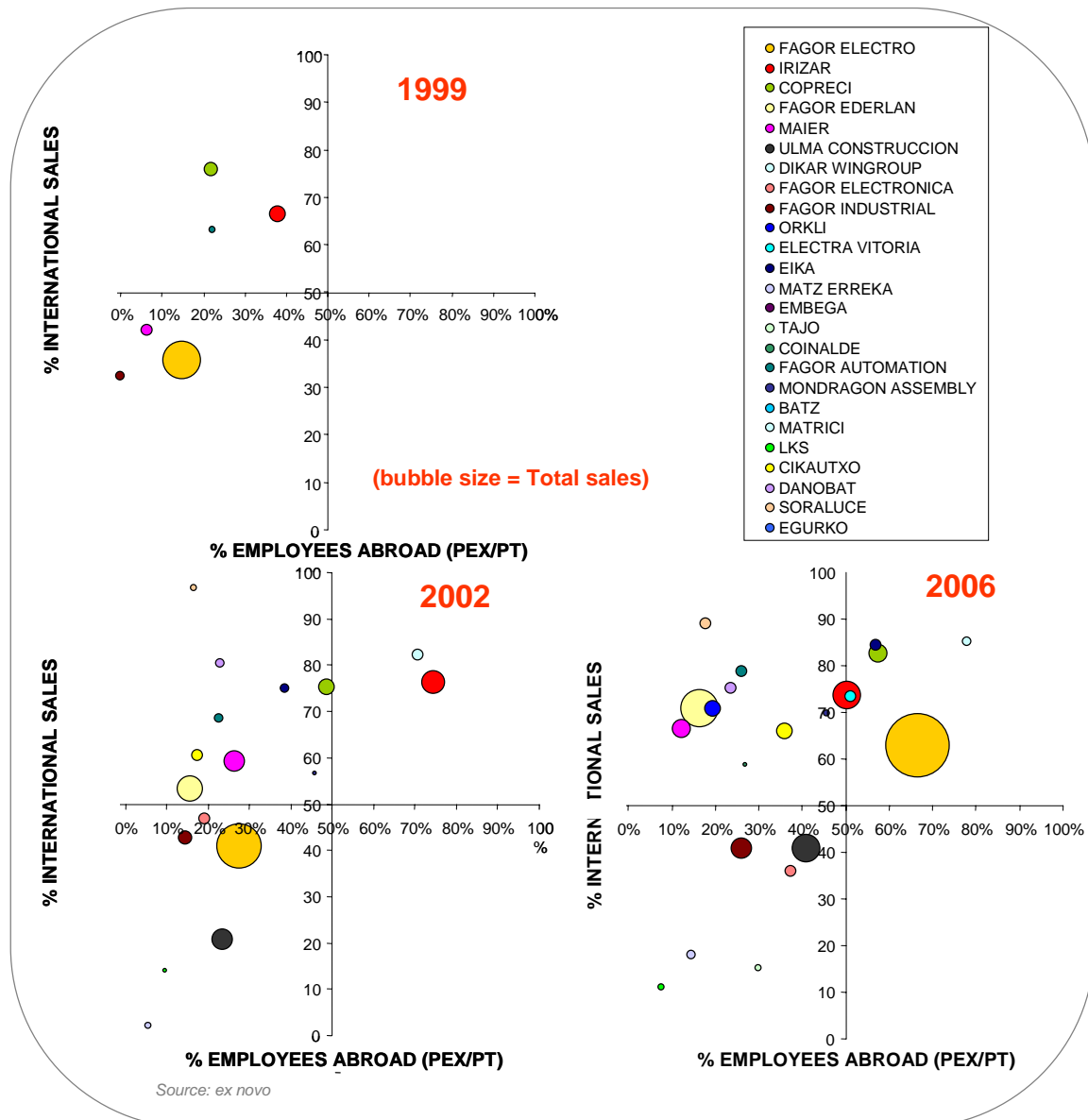


Figure 5.4: The Mondragon Group global co-ops diverse and multiple strategies

All of them together had 59.33% international sales and 35% international purchases, though there is a wide variety of positions and paths as will be analysed in greater depth later in this chapter.

#### **5.3.4 A fast-implemented strategy**

It is impressive that the pace of the Mondragon internationalisation process grows from seven global co-ops identified at the end of 1999 to 25 at the end of 2006 (Ulma Group information is included post 2001). Some of the pioneers at the end of 1999 were already positioned in international markets sales and international production. At the end of 2002 there were already 15 global co-ops, the majority moving from a local player scenario to an exporter one. The period analysed ends with 25 global co-ops operating as global players, exporters and also local players, having recently started the international multi-localisation strategy (fig. 5.5).



**Figure 5.5:** The Mondragon Group recent and fast implemented strategy

### 5.3.5 An economic and social driven strategy

While analysing the economic and social objective, we observe that among the Mondragon global co-ops there is a positive direct relationship as regards total sales increase, international sales weight, number of employees abroad, and value added per employee (EBITDA / PT):

	1999	2002	2006
<b>PT</b>	13,318	21,049	32,041
<b>PEX</b>	1,434	5,794	13,918
<b>% PEX / PT</b>	10.77%	27.53%	43.44%
<b>TOTAL SALES</b>	1,144,363	2,473,902	4,514,008
<b>% INTER SALES</b>	35.77%	48.79%	59.33%
<b>EBITDA / PT</b>	7.43	10.10	12.16

*Source: ex novo*

**Figure 5.6:** The Mondragon Group 25 global co-ops activity

These activity ratios may conclude that Mondragon International multi-localisation strategy (1999-2006) is financially and socially successful. According to the two groups of global co-ops previously presented, their social and financial performance has been positive in both cases, although it should be noted that there are some differences in both groups (fig. 5.7).

MNE - GLOBAL COOPS (N=6)				SW GLOBAL COOPS (N=13)			
	1999	2002	2006		1999	2002	2006
<b>PT</b>	8,287	12,402	17,519	<b>PT</b>	4,498	6,620	10,598
<b>PEX</b>	1,434	4,169	9,695	<b>PEX</b>	0	1,287	3,054
<b>% PEX / PT</b>	17.30%	33.62%	55.34%	<b>% PEX / PT</b>	0.00%	19.44%	28.82%
<b>TOTAL SALES</b>	1,089,124	1,552,671	2,605,393	<b>TOTAL SALES</b>	55,239	727,783	1,472,324
<b>% INTER SALES</b>	44.76%	52.86%	64.58%	<b>% INTER SALES</b>	32.25%	64.15%	65.06%
<b>EBITDA / PT</b>	10.91	8.10	9.56	<b>EBITDA / PT</b>	-	10.87	10.09
<b>EBITDA / MEM</b>	17.10	16.17	27.92	<b>EBITDA / MEM</b>	-	18.79	25.80

*Source: ex novo*

**Figure 5.7:** The Mondragon Group 25 global co-ops activity: MNE Global co-ops vs. SW Global co-ops

#### 5.4 MAPPING BY TIMING THE PERFORMANCE OF THE MONDRAGON GLOBAL CO-OPERATIVES

There are three groups among these 25 global co-ops:

- The MNE global co-ops: Those co-operatives that at the end of 1999 already had a production plant abroad, having more than 10 years of international multi-localisation experience.

- SW global co-ops: those co-operatives that at the end of 1999 were local co-ops, with their first international FDI abroad implemented during the period 1999-2005.
- New global co-ops: Those co-operatives that implemented their first international FDI during 2005 or 2006. These co-operatives do not have records on their international multi-localisation strategy readily available at the time of writing.

MULTI-LOCALIZATION EXPERIENCE	GLOBALCOOPS	YEAR FIRST FDI
MNE GLOBAL COOPS FDI before 1999	COPRECI	1989
	FAGOR ELECTRONICA	1993
	ULMA CONSTRUCCION	1994
	IRIZAR	1999
	FAGOR ELECTRODOMESTICOS	1999
SW GLOBAL COOPS First FDI 1999-2005	FAGOR AUTOMATION	1999
	MAIER	1999
	EIKA	2000
	MONDRAGON ASSEMBLY	2000
	FAGOR INDUSTRIAL	2000
	DIKAR WINGROUP	2000
	LKS	2001
FAGOR EDERLAN	2001	
BIRTH GLOBAL COOPS First FDI 2006	MATZ ERREKA	2002
	CIKAUTXO	2002
	DANOBAT	2002
	SORALUCE	2002
BIRTH GLOBAL COOPS First FDI 2006	ORKLI	2004
	ORBEA	2004
	TAJO	2005
BIRTH GLOBAL COOPS First FDI 2006	COINALDE	2005
	ELECTRA	2005
BIRTH GLOBAL COOPS First FDI 2006	BATZ - MATRICI	2006
	EGURKO	2006
	EMBEGA	2006

Source: ex novo

**Figure 5.8:** The Mondragon Group global co-ops & timing

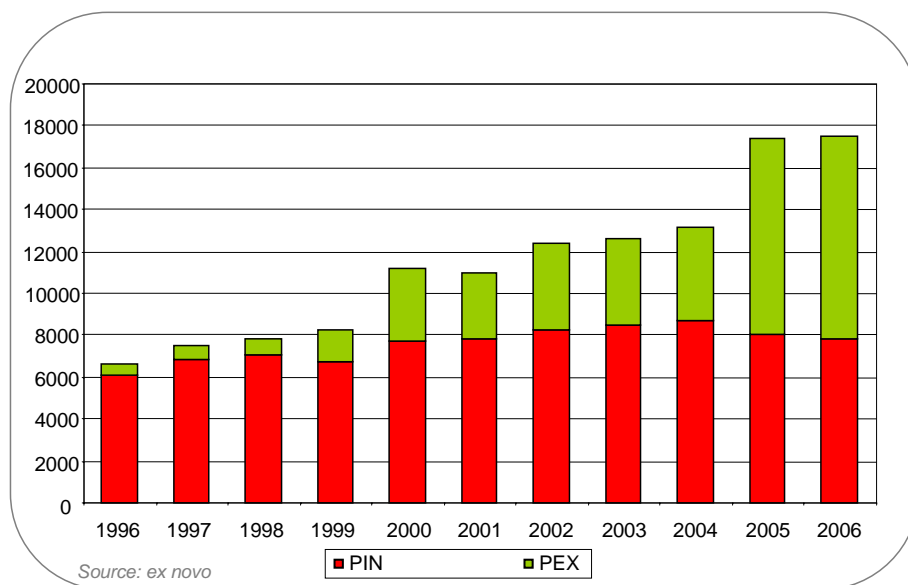
## 5.4.1 Mondragon MNE global co-operatives

### 5.4.1.1 Introduction

The seven co-operatives (Copreci, Fagor Electrónica, Ulma Construcción<sup>115</sup>, Irizar, Fagor Electrodomésticos, Fagor Automation and Maier) brought together under this group of MNEs have in common that all initiated their international multi-localisation

<sup>115</sup> Data (number of employees, total sales, etc.) in this section will not include the Ulma Construction, whose figures were taken into account from 2002 when joining formally the Mondragon Group.

strategy before 1999. In addition, and in accordance with previous studies (Doms and Jensen, 1998), they share other characteristics such as their greater size, innovation and investment capacity. However, there are fundamental differences in their original reasons, strategy and development of international co-operative activity; excluding the customer-supplier relationship at Fagor Electrodomésticos, Copreci and Fagor Electrónica, the co-operatives do not operate within the same industrial sector. Each co-operative within this group, save Fagor Automation and Maier, possess at least 10 years' experience of international multi-localisation, simply because they boasted at least one international operation prior to 1996. At the end of 1996, the group of MNE global co-ops involved 17,519 people; at the parent co-operatives worked 6,767, with 5,999 co-operative members. Abroad, the total of the seven MNE global co-ops involved 23 production plants at where 9,659 people worked, with Fagor Electrodomésticos taking on a particularly important weight after the acquisition of a 100% stake in the French MNE Brandt in 2005; in this 4,644 people were working abroad.



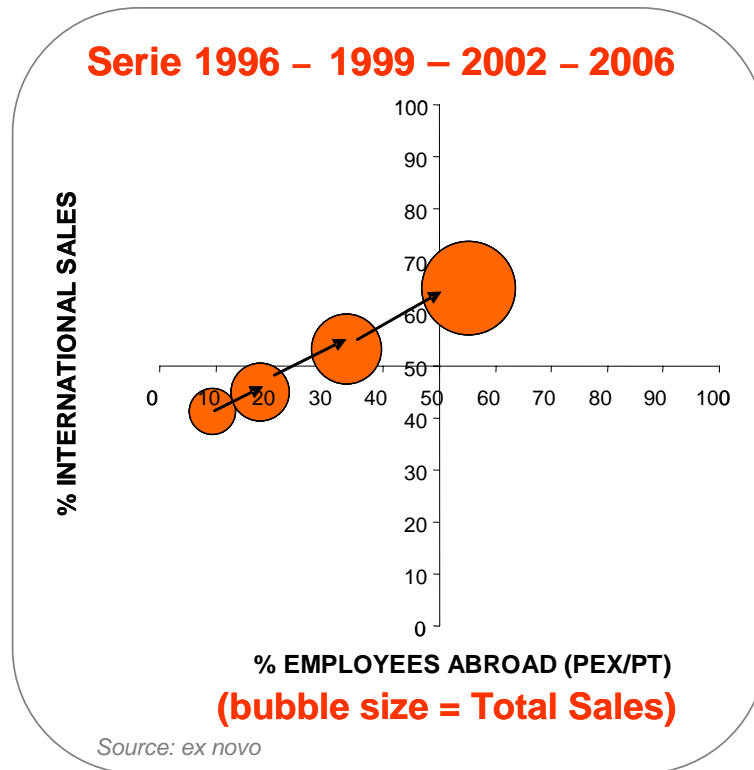
**Figure 5.9:** MNE global co-ops employment interior vs. abroad

### International activity 1996-2006

The activity of these pioneer co-operatives in international multi-localisation (MNE global co-ops) has been significantly active, based on access to international markets through horizontal integration (HFDI). Such an evolution from local to global player

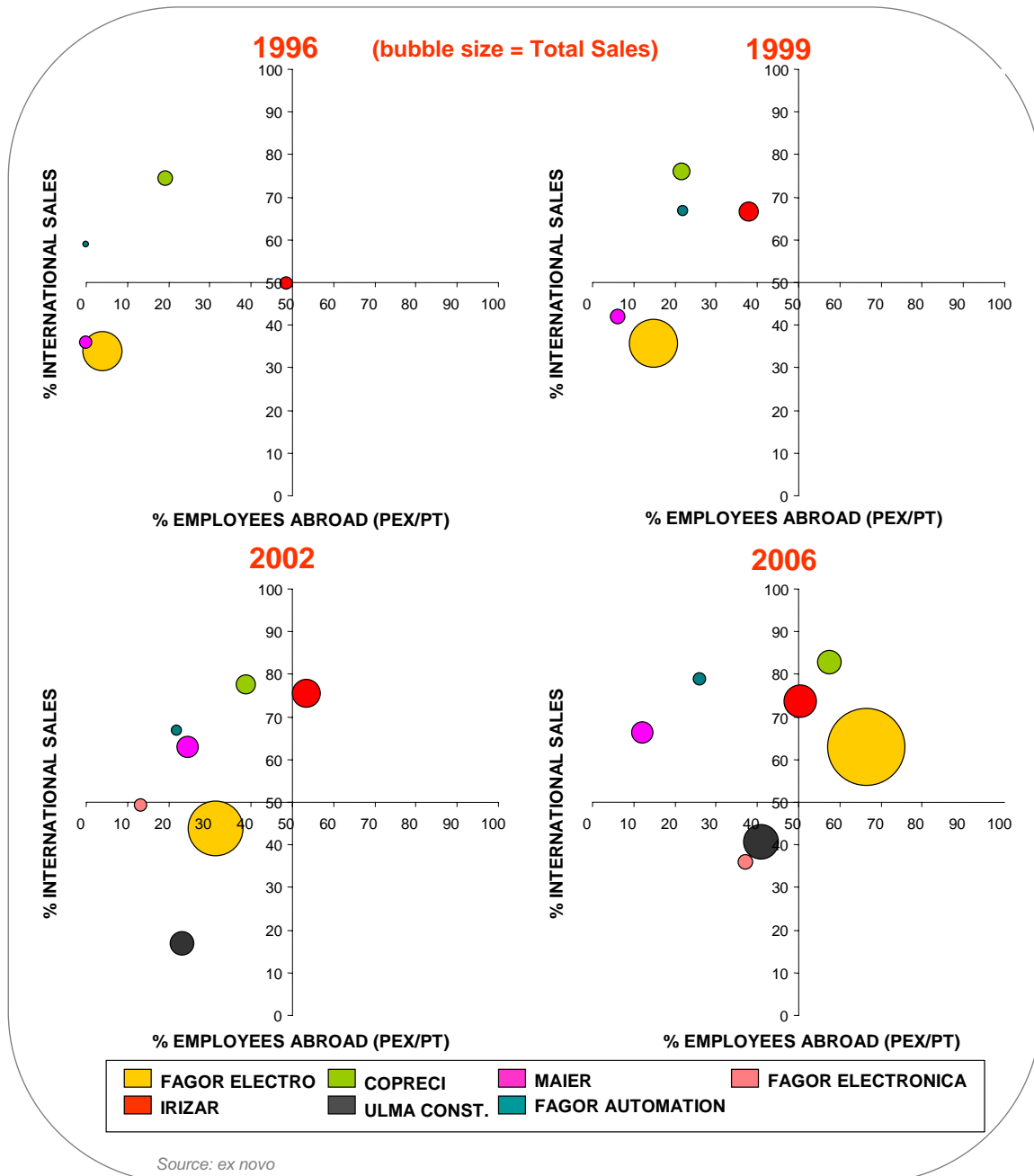


has occurred as a result of endogenous (or self-pollinating) growth, with FDI in local companies that did not bring improved market share but positioning. The case of Fagor Electrodomésticos in France is an exception, given that the acquisition of Brandt was mainly justified by the significance of its brand and market share in Europe.



**Figure 5.10:** MNE global co-ops: globalisation itinerary

During the aforementioned period, sales have increased by 280%. With relentless domestic sales growth, international sales are the driving force between market expansion abroad and the growth in the scale of the co-operatives, the weight of employment abroad (PEX/PT) went from 40% at the beginning of the period to 65% at the end of 2006. With 23 production plants abroad, of which 17 were opened during the studied period, the amount of employees abroad grew significantly from 10% to 55% of the total workforce.



**Figure 5.11:** MNE global co-ops: diverse globalisation paths

#### 5.4.1.2 Social and economic goals

Coherent with the objective of parent co-operatives employment defence, certain MNE global co-ops have moved ahead of their time in positioning themselves in the international market which they consider to be their natural setting; however, others have encountered difficulties on this, resulting in a less gradual and more radical adjustment.

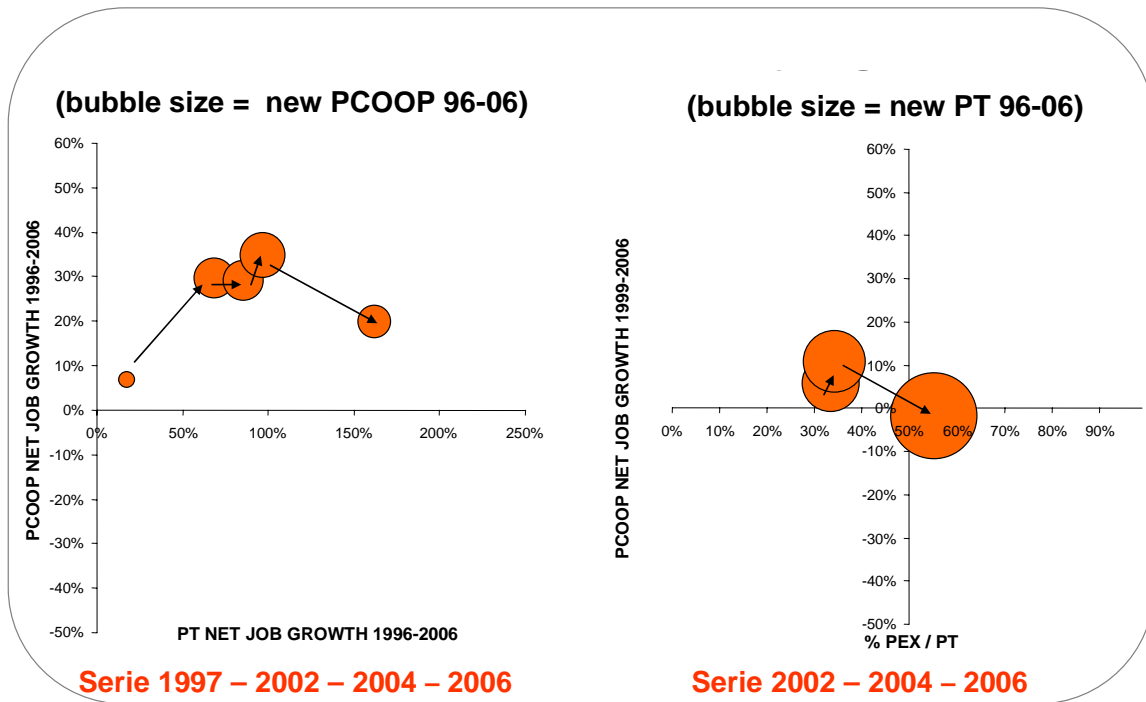
If co-operative employment generation of the MNE global co-ops is submitted to a thorough analysis, a constant increase can be noted from 1996 to 2002, reaching a growth rate of 37%. In contrast, this upward trend changes in 2002, with a reduction in parent co-operative employment giving place to net job growth: 20% during 1996-2006 and during 1999-2006 nil (0%) (fig. 5.12). The evolution of employment at the global co-ops reveals how it is increasingly difficult to generate jobs of an industrial nature at the parent co-operatives. Having been those co-operatives with more than 10 years of internationalisation (the case of Fagor Electrodomésticos is particularly important), they had reached a highpoint of industrial blue collar workforce in the Basque Country.

Upon analysing the global dimension (parent company and branches abroad), it is clear that the process of internationalisation has provided an extraordinary capacity to generate net employment, with an increase of 170% of the total amount of jobs. Given that it has allowed the MNE global co-ops to take on such a global dimension, which is a key element in competitiveness in the global market, the multi-localisation strategy has been of fundamental importance. In turn, such improved competitiveness upholds in an improved way employment at the parent co-operative with a net increase in the amount of workers during the initial years. This increase tends to flattening around 10 years after the commencement of the first FDI, extending the need for new products launch, and for entrance into markets that share the same technology (in this case, in reference to spin offs) or new business diversification and *intrapreneurship*: “it should be easier to undertake new-business-venturing within the existing company than to attempt starting a new enterprise. Indeed, at the heart of an organisation there is an array of ideas that can be converted into opportunities” (Nueno, 2005: 203)<sup>116</sup>. One example is the launch by Irizar of the launch of “*IRIZAR i4*”, a strategy which involved suburban road transport operation; another case is that of Fagor Electrodomésticos with the formation of Ibai S. Co-op or the creation of Ulma Polymer Concrete<sup>117</sup>.

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<sup>116</sup> Translated from a Spanish text: “debería ser más fácil emprender dentro de la empresa que empezando una empresa nueva. En efecto, en el seno de una compañía hay montones de ideas que pueden ser oportunidades” (P. NUENO, 2005: 203).

<sup>117</sup> To have a deeper understanding on the Mondragon Group innovation plan see section 3.4.1



**Figure 5.12:** MNE global co-ops net-job growth: parent co-op vs. total

From the financial viewpoint, multi-localisation has been a consequence of an increase in international sales of 63% at the end of 2006 (fig. 5.13). Such an increase has given place to an investor-active market with the emergence of 17 new sites abroad. At the end of 2006 three of the sites continued to be operating at a loss. Hence, the support of MCC Investments as a temporary financial partner to such sites has been of vital significance, remaining active at the end of the above mentioned period at 12 of the 35 locations.

	1996	1999	2002	2004	2006
<b>PT</b>	6,675	8,287	12,402	13,167	17,519
<b>PEX</b>	-	1,434	4,169	4,514	9,695
<b>% PEX / PT</b>	-	17.30%	33.62%	34.28%	55.34%
<b>TOTAL SALES</b>	700,647	1,089,124	1,552,671	1,622,958	2,605,393
<b>% INTER SALES</b>	40.99%	44.76%	52.86%	49.48%	64.58%
<b>EBITDA / PT</b>	5.90	10.91	8.10	10.20	9.56
<b>EBITDA / MEM</b>	7.62	17.10	16.17	21.09	27.92

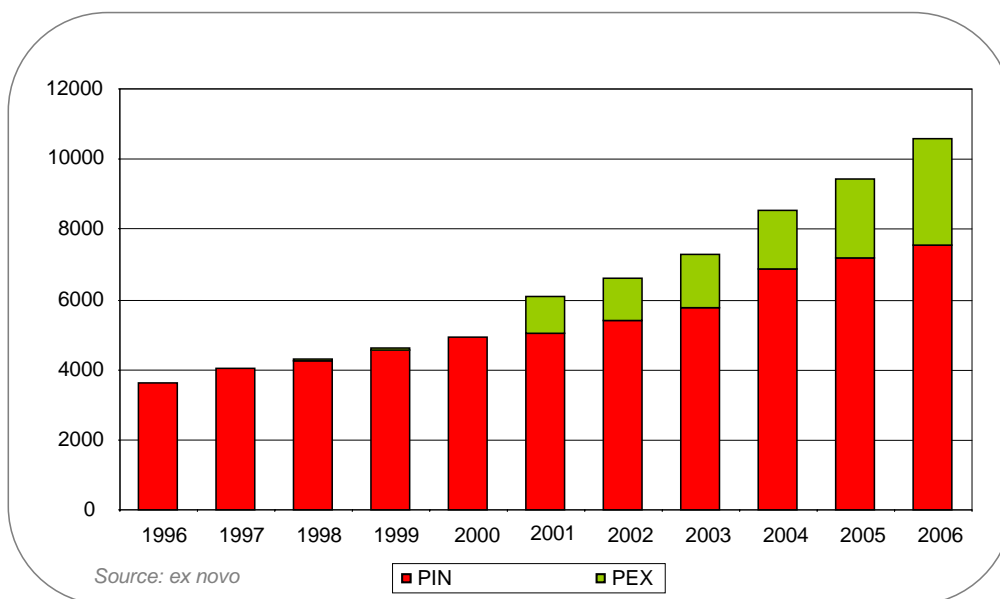
*NOTE: Sales from ULMA and FAGOR Electronica are not included until 2002 with €200m.*

**Figure 5.13:** MNE global co-ops activity

## 5.4.2 Mondragon SW global co-operatives

### 5.4.2.1 Introduction

The 15 co-operatives placed in this group of SW global co-ops (Eika, Mondragon Assembly, Fagor Industrial, Dikar Wingroup, LKS, Fagor Ederlan, Matz Erreka, Cikautxo, Danobat, Soralue, Orkli, Orbea, Tajo, Coinalde, and Electra) are of a similar nature in that each took on its first FDI, changing from a local co-op in 1999 to a global co-op at the end of 2006. In this case there are underlying differences in the original reasons for such a change, for the strategy and for the international development of each co-operative. The SW-global co-ops belong mainly to components division (Eika, Orkli, Matz Erreka, and Tajo), to machine tools division (Danobat, Soralue, and Mondragon Assembly), and to automotive division (Cikautxo and Fagor Ederlan). At the end of 2006 SW Global co-ops comprised 10,598 people; at the parent co-operatives worked 5,057 people with 4,147 co-operative members. Abroad, the total amount of these MNE global co-ops possessed 35 production plants with 3,052 employees.

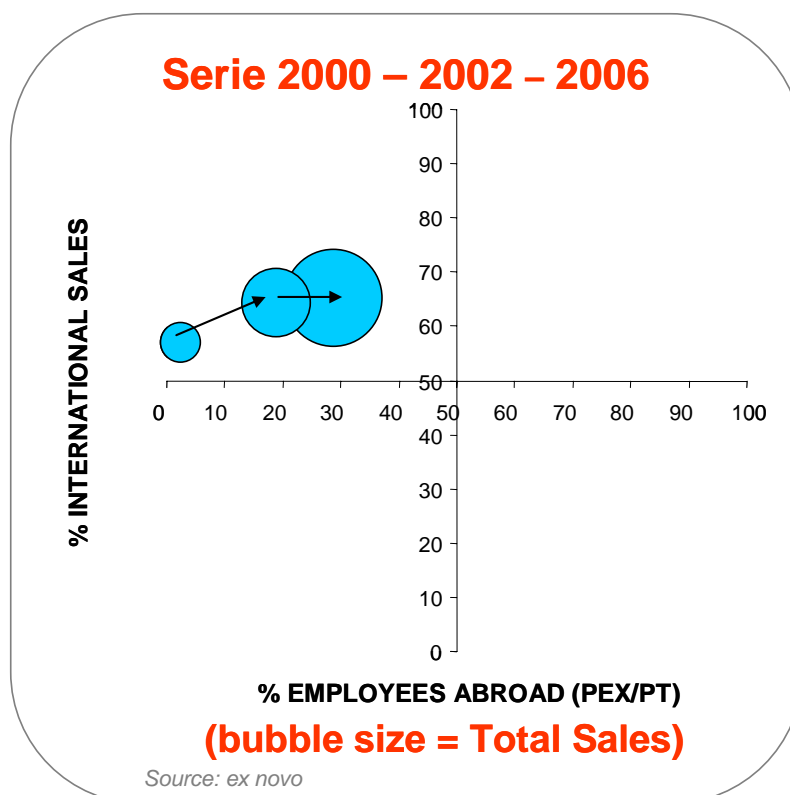


**Figure 5.14:** SW global co-ops employment: interior vs. abroad

### International activity 1999-2006

This group has the common trait that, despite the fact that in the majority of the cases international sales out of total sales were of weightier importance (at the beginning of

the period 57%), no production plants were in operation abroad. This has taken place during a period when co-operatives' economic turnover was promoted by instigation of international operations. Therefore, such an occurrence has been a result of an HFDI strategy, in which the co-operatives have been prepared to accept the whole world as their potential market, focusing on achieving market share abroad. When analysing this, it is clear that in many cases the increase has emerged from large multinational customers that continued to work with the co-operatives with whom they had previously worked at a local level, but now as global suppliers.



**Figure 5.15:** SW global co-ops: globalisation itinerary

Total sales have been increased by 250% over the period (2000-06), reaching €1.472m at the end of 2006 (11% of which involved the industrial division at the Mondragon Group). In the case of the SW global co-ops, international sales volumes are clearly the driving force behind expansion, growing from €305m (57% of total sales) in 2000 to €995m (65%) during the same period. With 35 new sites abroad, the proportion of employees working at non-domestic sites rose from 0% to 28% (fig. 5.15).

There is a wide array of strategies, while most of the co-operatives began as exporters with a significant amount of international sales; such sales then increased alongside the

amount of employees working overseas (fig. 5.16). One such case involves Eika, which has pursued an energetic pace of initiating production abroad, opening four production plants abroad since 1999; consequently, at the end of 2006 Eika was a global player having a larger workforce abroad than at the parent co-operative. Another case is Fagor Ederlan, which has experienced during the period significant dimensional change as a result of incorporating production plants both in Spain and abroad.

Of course, exceptions do exist, such as the case of Dikar Wingroup: shifting from a retailer global position of fitness products to starting production activity opening its own production plants in China (an outcome of the vertical integration in the fitness business). Lastly, there are cases of certain co-operatives whose international presence is symbolic, as they find themselves at the first point of internationalisation.

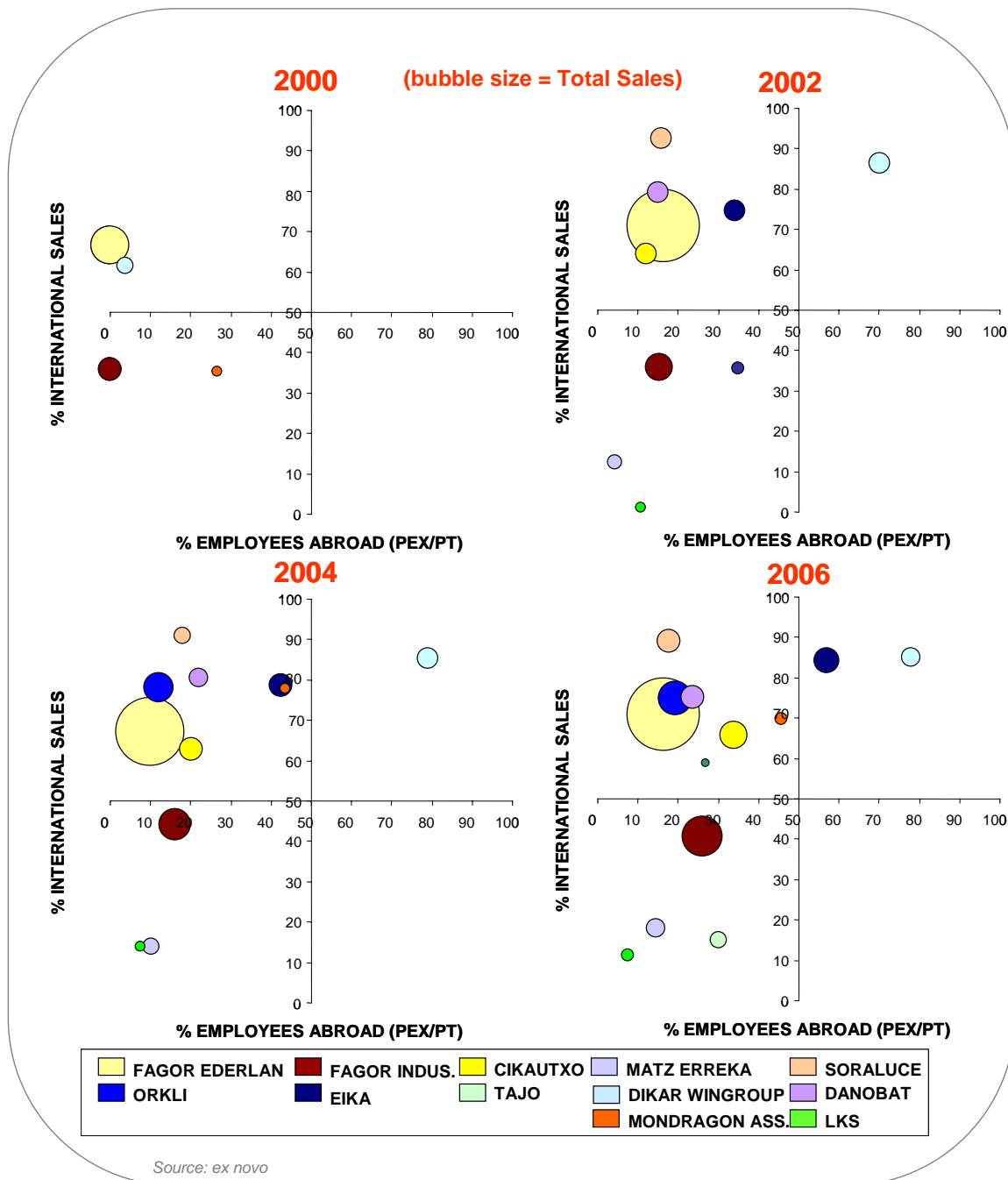


Figure 5.16: SW global co-ops: diverse globalisation paths

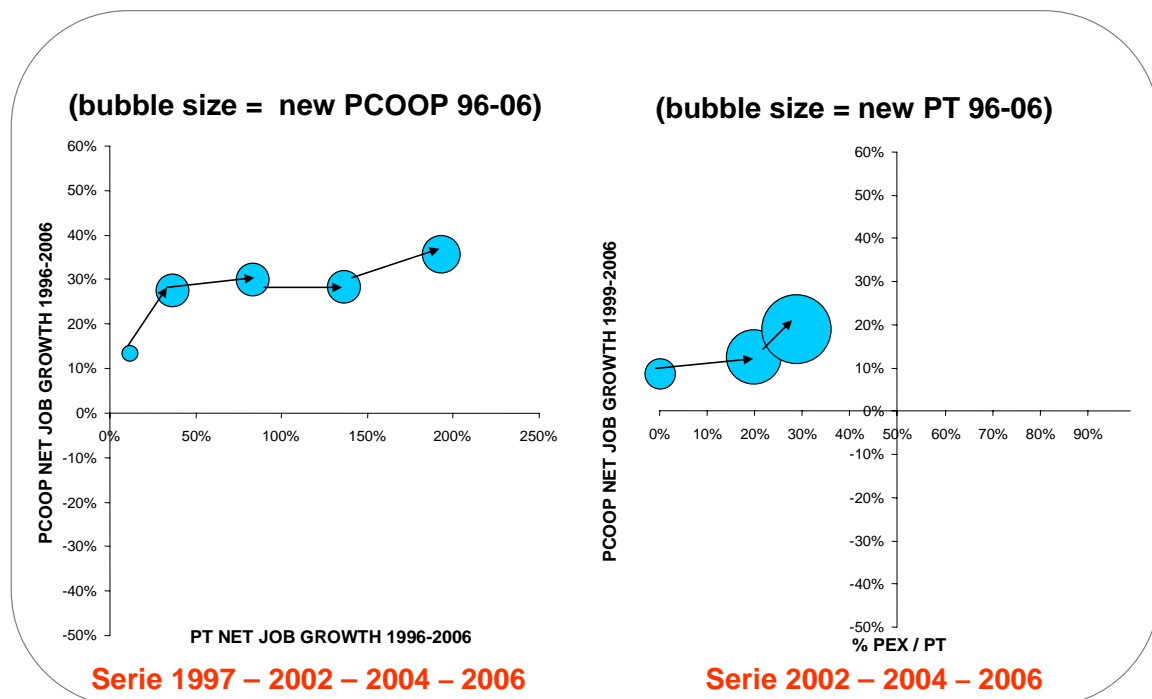
#### 5.4.2.2 Social and economic goals

The main reason behind the process of international multi-localisation of the SW global co-ops has been the urgent need for a global structure as a key to competitiveness. The majority of the co-operatives prior to 1999 had experienced significant growth in the workforce of the parent co-operatives, though it is since 1999 when they had to consolidate this growth in local production capacity in the light of the global dimension.



There are other cases, such as Fagor Ederlan, that during the period prior to 1999 the workforce of the parent co-operative did not grow, but as a result of becoming global co-op new jobs increased substantially. Thus, by examination of the parent co-operative employment growth at the SW global co-ops, appears a constant increase from 1996 onwards, reaching the 37% at the end of 2006. It is clear, then, that when employment grows in the international context, employment also grows at the parent co-operative (fig. 5.17). Such an argument, though, can invite debate in the case of the trend observed at the MNE global co-ops, and specifically at Fagor Electrodomésticos and Copreci, which appear to have arrived at their respective employment highpoint precisely at the parent co-operative. All that invites analysis to understand the reasons, in order to anticipate the future evolution of the SW global co-ops.

Understood in the global context (parent co-operative and production plants abroad), the process of internationalisation has brought with it an astonishing capacity to generate net employment, with an increase of 200% in the amount of jobs. The strategy of multi-localisation has been essential for the SW global co-ops, given that it has allowed them to acquire a global dimension which is key to competitiveness in the global markets. Such an enhanced competitiveness upholds in an improved manner employment at the parent co-operative, with a net increase in the amount of workers in the initial years.



**Figure 5.17:** SW global co-ops net-job growth: parent co-op vs. total

From a financial point of view, multi-localisation is a result of an increase in international sales of around 63% at the end of 2006 (fig. 5.18). Such an increase has allowed for significant investor action with 35 new sites inaugurated abroad. Due to their smaller size and the longer period required to make such sites profitable, it is important to highlight that these SW global co-ops encounter increased difficulty. At the end of 2006, eight of the sites still losing money. Consequently, once again the backing of MCC Investments as a financial partner at the new plants has been of vital relevance, present at nine of the 35 sites at the end of 2006.

	1999	2000	2002	2004	2006
<b>PT</b>	4,498	4,938	6,620	8,554	10,598
<b>PEX</b>	0	29	1,287	1,708	3,054
<b>% PEX / PT</b>	0.00%	0.59%	19.44%	19.97%	28.82%
<b>TOTAL SALES</b>	55,239	305,609	727,783	1,143,911	1,472,324
<b>% INTER SALES</b>	32.25%	57.77%	64.15%	66.02%	65.06%
<b>EBITDA / PT</b>	1.90	7.96	10.87	13.62	10.09
<b>EBITDA / MEM</b>	2.59	11.16	18.79	29.18	25.80

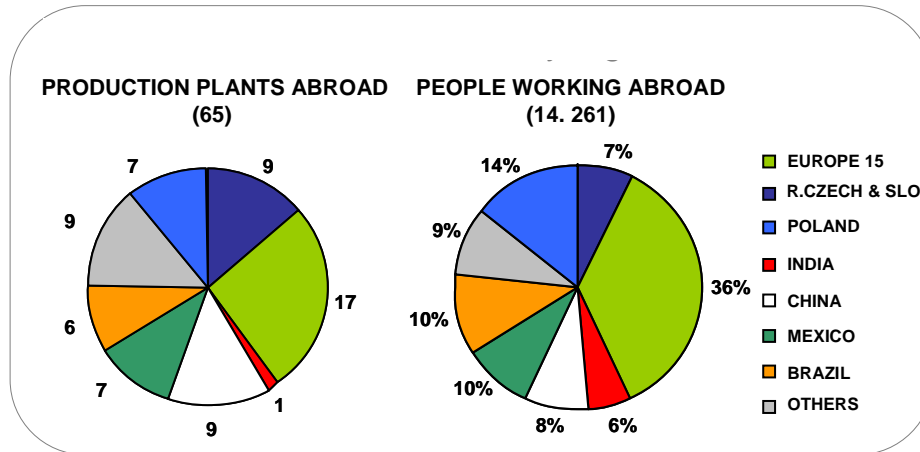
**Figure 5.18:** SW global co-ops activity

## 5.5 MAPPING BY COUNTRY THE PERFORMANCE OF THE MONDRAGON GLOBAL CO-OPERATIVES

At the end of 2006 it is possible to identify the following strategic regions for the production plants of 25 global co-ops abroad:

- Western Europe: Seventeen production plants spread around different countries, in France (five), Italy (four), Germany (three), the United Kingdom (three) and Portugal (two), with a total of 5,190 jobs. Despite the current trend to open sites in LDCs, this is the region that heads the list in terms of the quantity of the Mondragon Group operations abroad.
- China: With nine production plants and 1,133 people, China is the country with the highest number of Mondragon production plants. With the recent inauguration of Kunshan industrial park, the number of people working in the country will grow considerably in the coming years.
- Poland: With seven production plants (five located in Wrocław), where 2,010 people work, it has become a strategic pole for domestic appliance / white good manufacture in Europe.
- Mexico: At the seven production plants work 1,367 people; these are headed by Queretaro at which four sites are found. After the signing of the North American Free Trade Agreement (NAFTA), the country has become the entrance point to the North American market for the co-operatives.
- Brazil: With six production plants in the São Paulo area, at which 1,483 people work, the co-operatives are strategically placed in an important market, despite the monetary crisis experienced in 1997 and the current moderate growth within the country.
- The Czech Republic and the Slovak Republic: In the two central European countries 1,334 people work at nine production plants, with seven in the former and two in the latter. The two countries have become the new European pole in the automotive and, to a lesser extent, in the domestic appliance sectors.
- India: Despite, at the end of 2006, only having 789 people employed, India is nonetheless one of key strategic countries for the group with various projects in the pipeline.

- Other countries: In Turkey two co-operatives are now in operation with 100 jobs, as are two more in Morocco with 326 people. Despite not hosting any production plant, various co-operatives are positioning themselves in the Russian market<sup>118</sup>.



**Figure 5.19:** The Mondragon Group global co-ops by regions/countries

Our analysis is focussed, as shown in the figure above, on eight emerging economies: China, India, Mexico, Brazil, Poland, the Czech Republic, the Slovak Republic and Turkey; in this process prior analysis from the parent co-operative has been combined with fieldwork *in situ* at the respective production plants abroad:

<sup>118</sup> At the end of 2007 the Mondragon Group corporative delegation in Russia had an outstanding growth due to the interest and potential opportunities for Mondragon global co-ops in the country. Its workforce came from 5 to 22 employees.

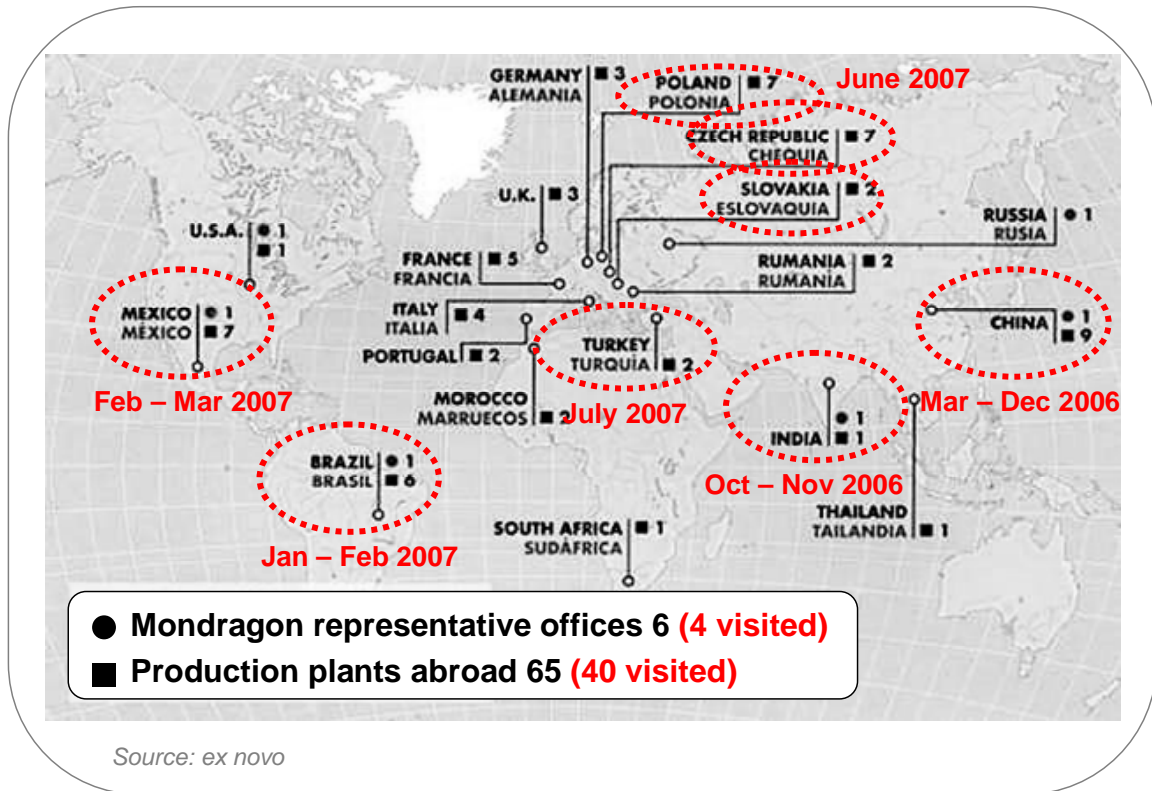


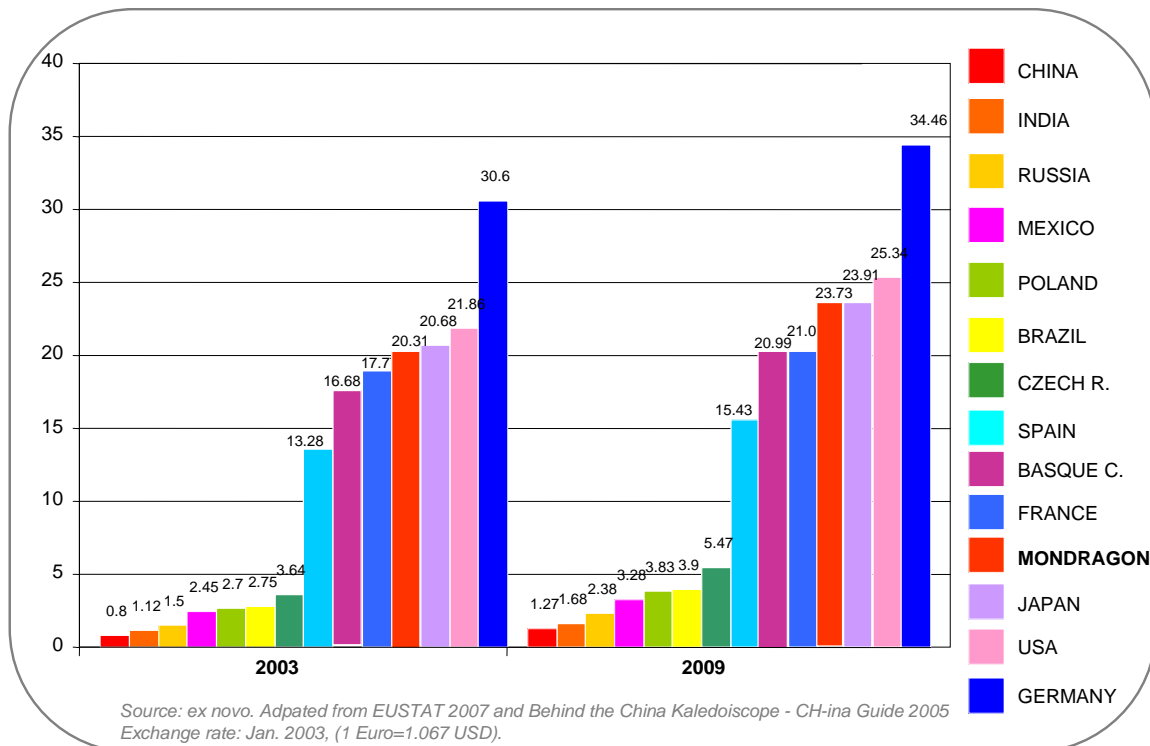
Figure 5.20: Research fieldwork: Mondragon production plants visited abroad 2006-07

## 5.5.1 China

### 5.5.1.1 Introduction

With annual GDP growth at 10%, with 20% of this on the east coast, as well as FDI that exceeded \$3.76bn in 1990, four in 1999 and seven in 2006 (NBS, 2006), it can be affirmed that China has become the factory of the world. At the end of 2004, 80% of the world consumption of tractors, 60% of penicillin, 70% of DVD players, 50% of telephones and 75% of watches will be produced in the country. The role that the United Kingdom retained in 1830 and the United States adopted in the twentieth century - both countries curiously being world leading powers at the end of the nineteenth and twentieth centuries respectively - has been taken on by China (Musy et al., 2005). The radical demonstrations of the students in Tiananmen Square in 1989 remain in the past; Deng Xiaoping in Guangzhou in 1992 affirmed that “it does not matter if the cat is white or black, as long as it catches the mice”. With this, the communist government sent a clear message to the foreign multinationals that China would open itself to the world, and its establishment would have the authority and control to lead this change, using whatever means were necessary to guarantee FDI to the country. The long term project of a communist command model, subject to democratic control every four years, has allowed for growth that follows in the wake of Japan or the Asian tiger economies; the difference is only the size of the population of the Chinese giant.

At the end of 2006 China had a population of 1.393bn with an annual GDP per capita of \$1,703 (\$6,707 Purchase power parity) (UNDP, 2007) and with 46.6% of the population living on fewer than \$2 per day. Even with a less rigid Yuan (CNY), an increase in wage levels will be gradual maintaining the competitiveness of the widely-known *China Price* (Engardio, 2007) at least for the next 20 years (fig. 5.21).



**Figure 5.21:** Average hourly compensation of production workers, 2003-09, USD

The production role of China is commonly acknowledged; less known is its interior market current volume and forecasts, or its strategic investment in innovation and R&D.

In the primary resources market, at present Chinese consumption as a percentage of that of the world stands at 47% in cement, 26% in crude steel, 21% in aluminium, and 20 % in copper. Such a large increase is the main reason behind international volatility and exponential proliferation of the cost of primary materials throughout the world in the past years. Considering family consumption, we find a middle class of more than 150m inhabitants that is expected to reach 400 or 500m in 2012, making China a larger market than that of the United States. At the end of 2006 there were in China 150m dwellings with access to the Internet, 450m mobile telephone owners, and 22m car owners; 7m cars were sold in 2006 with an 18.8% annual growth (NBS, 2006).

Without any doubt such a pace of development in China will not cease in terms of high volume production, rather it will begin to emulate the technological development experienced in Japan as a result of research, design, and innovation. With more than 700 technology centres in 2004, alongside the constant creation of 200 technology centres per year, as well as a 20-30% growth in patent registration, it is expected that by 2010

China will be investing a more significant amount in R&D than the European Union (EU) (Musy et al., 2005). In order to aspire to this, in 2006 the Chinese economy had available more than two million qualified engineers, 1.9m accountants, and 690,000 recent graduates in the sciences, all with fewer than seven years of experience.

#### 5.5.1.2 The reasons behind multi-localisation in China

The main reason for starting production by Mondragon co-operatives in China is access to and placing in the local market. This is the case at co-operatives such as Fagor Automation which, after opening a sales office in Hong Kong in 1989, opened another in Beijing in 1992. Similarly, Irizar commenced operations with a joint venture in Tianjin in 1994, Orkli (together with its commercial partner) in 2003, and Copreci (after a two-year analysis) in 2005.

Certain exceptions do exist, such as the case of the Dikar Wingroup in 2000 that sought to integrate vertically, initiating production with its own plant which had previously been limited to purchases in China. Likewise, the Fagor Electrodomésticos that in 2003, due to a particularly large order in Spain, established with its Chinese partner a joint venture to manufacture pressure cookers; this specific case involved the relocation of the manufacture of products with a lower added value, leading to specialisation at the parent co-operative, which in turn gave place not only to a maintenance of employment, but also to an increase.

In recent years, there has been a large amount of co-operatives whose first approach to entering China was centred on the internationalisation of purchases. The majority, with the assistance of the Mondragon Group corporative office in Shanghai, *landed* in the country in search of increased competitiveness through a reduction in purchase costs. Thus it can be concluded that the principal long term objective is access to the local Chinese market; however, in the short term (as regards the purchasing sector) such reasons can involve outsourcing of production, though with the manufacture of products with a lesser added value taking place at the parent co-operative.

#### 5.5.1.3 Co-operative activity 1999-2006



At the end of 2006 the following co-operatives were operating in China:

- Fagor Automation (Beijing): The operation involved 60 local workers, with two others on assignment from the Basque Country, one as head of the Asian business and the other as head of the Chinese market, in which:
  - Chinese market sales are managed, coordinating with the offices in Hong Kong, Shanghai, Guangzhou, and Nanjing.
  - The Asian market presence is managed, coordinating the area network with offices in Taiwan, South Korea, Singapore, Hong Kong, and India.
  - The measurement ruler, a lower added value product with higher stock turnover, is manufactured and marketed from the local office on the Chinese market.
  - Technical support is provided, and repairs are carried out.
- Irizar (Tianjin): Involved a 200-person team, focussed on the local Chinese market. Since 2004, at the new greenfield factory, sales have been coordinated as regards the immediate market, as well as accessing the neighbouring. At present, a project to access the Australian market with production at the branch in China is taking place. Hispacold also has a sales representative office in Beijing.
- Danobat (Beijing): With a 20-person local team at the end of 2006, the operation has achieved a strategic position in the country. This involved a technical assistance office, though production machinery has yet to be installed.
- Fagor Electrodomésticos (Shanghai): Headed by a Chinese general manager with more than 10 years of experience working at Fagor, the Shanghai-based, 20-person office carried out the following activities:
  - Coordination of a joint venture with a local partner in the production of small domestic appliances in Shanghai.
  - Purchases for the whole of Fagor, with a significant annual volume resulting from an active purchase internationalisation process.
  - To encourage activities within the Chinese market, counting on three sales points to market luxury domestic appliances.
- Copreci (Zhuhai): Following extensive analysis of the opportunities and challenges to be found in China, Copreci opened a plant in Zhuhai, a city less than half-an-hour from Hong Kong, Macau and Guangzhou. At the end of 2006

- the plant employed 20 people, focussing on the management of purchases and suppliers in the country, *rapprochement* with the local market, and the production of components for barbeque facilities which United States factories have relocated to China.
- Ulma Construction (Shanghai): As a result of a joint venture, Ulma had at the end 2006 positioned itself within the booming construction sector with a 100-employees operation.
  - Dikar Wingroup (Kunshan): One of the pioneering operations in the country, since the early 1990s Taiwan and China had been *par excellence* suppliers of fitness and camping products marketed in Europe and the United States. In 2000 production commenced with two joint ventures; at the end of 2006, with a workforce of 325, production was transferred to recently-opened plant in Kunshan: a project that from its beginning has seen the co-operative lead its division.
  - Orkli (Kunshan): With assistance from its local commercial partner, in 2000 Orkli gave an impulse to its operations. With the aim of monitoring growth in the market and pre-empting the emergence and expansion of potential competitors, production began with the local commercial partner at Ningbo in 2002. By the end of 2006 a 67-worker team moved to a new unit at the Mondragon Kunshan industrial park, from where domestic market growth will be led alongside production of a low value added product, which would be unprofitable to manufacture in Europe. The Orkli strategy has been proactive, gradual, and of a preventative nature; that is to say, it has sought to hedge against future problems, thus converting them into contemporary opportunities<sup>119</sup>.
  - Orbea (Kunshan): It has been forecast that at the end of 2008 customs duty on the import of Chinese-manufactured bicycles to European markets will be reduced by 50%. As a result of this and the need to have available a structure for worldwide production, in 2006 Orbea opened a plant in the new Kunshan industrial park, from where little-by-little it will begin the manufacture of bicycle frames for the United States market, alongside managing its purchases and suppliers in China. At the end of 2006, with the construction work at the

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<sup>119</sup> In order to have a deeper understanding of this Mondragon best practice, see section 7.1.

plant having been completed, the Mondragonian who will head the project took up the post.

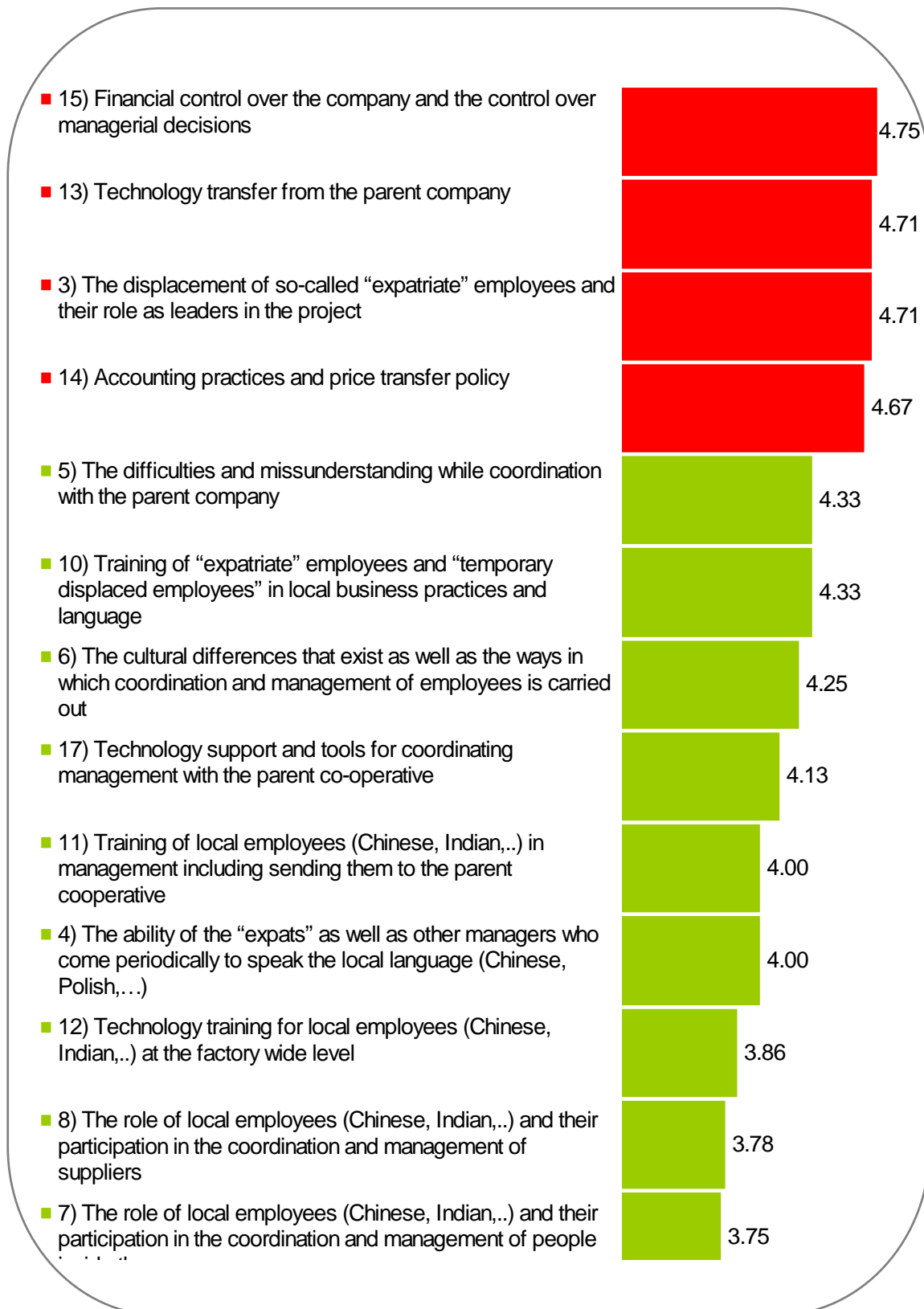
- Oiarso (Kunshan): With help and cooperation from MCC Investments, the co-operative with 58 workers located in the Basque Country took on a large-scale project with production starting, once again, at the Kunshan industrial park, from where it will not only integrate the manufacture of current purchases in Asia and the management of local suppliers, but also it will seek to position itself in the domestic Chinese market. At the end of 2006 the expatriate responsible for the project had been located at the Chinese base for a year (working from the SPRI<sup>120</sup> Shanghai office), carrying out work on managing suppliers and coordinating construction work at the new plant.

In addition to this, the Mondragon Group corporate international department has two offices in the country, one in Beijing and another in Shanghai; wherefrom (in addition to providing support to the organisations already in operation) assistance is given to those that are taking their first steps in the country, drawing on the support of a 10-person team at its sales platform, that works exclusively with the Mondragon Group. At present, four new organisations are in the second phase of their location process at the Kunshan Industrial Park: Fagor Arrasate, Fagor Industrial, Batz, and Gestamp (company outside the Mondragon Group). Other co-operatives, such as Kide, are at the moment examining the feasibility of opening their own Kunshan-based operation.

Below is an outline of the factors which, according to co-operative managers, are considered to be the keys to success in the country.

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<sup>120</sup> SPRI (Association for the Promotion of Industry) is a Basque Government agency, that supports Basque companies internationalization process.



**Figure 5.22:** Strategic success factors – China – Survey results

#### 5.5.1.4 The social and economic dimension

An additional operation at the end of the period was the Tianjin Machine Tool Training project, which has been initiated as a result of collaboration between the Governments of Spain and China in 2003. The original promoter was Danobat, though the project is now backed also by Fagor Automation and other Spanish machine tool companies, with the centre managed by a former Soraluze co-operative member.

With regard to the working environment, certain co-operatives assure that they provide better salary terms than those offered by other organisations in the immediate surroundings. After analysing the practices of certain such operations, we note that while such conditions are indeed more favourable than those at Chinese companies, it is difficult to differentiate them from those offered by other MNEs. Such a comparison encounters problems due to the facts that there does not exist either any monitoring of local labour market conditions nor salary comparison information between Mondragon production plants in the country. One noteworthy figure that can be found, though, concerns levels of workforce turnover that exceeds the annual rate of 50% at those production plants with a significant degree of production.

In a positive sense, the internal management model of production continues to be in the majority of cases the model followed at the parent co-operative. However, in a negative sense, it is evident that there is a lack of communication channels between the expatriate management team and the employees on the production line, one that gives place to insurmountable divisions between the management and both the Chinese employees who speak either English or Spanish, and the mass workforce which does not.

China is a country in which the transfer of a working culture is not obtained simply by goodwill; it requires rather specific support in training, both of Chinese and non-Chinese employees, for handling the situation properly.

## 5.5.2 Poland

### 5.5.2.1 Introduction

With annual GDP growth in 2006 at 5.5% and the receipt of substantial FDI stocks that went from €109m in 1990 to €34.227m in 2000 and to €93,329m in 2006 (UNCTAD 2006), Poland has bid farewell to its communist era, leading the enlargement of the European Union to 27 member states<sup>121</sup>, and aspiring to emulate the development experienced by Spain over the past 20 years. While there do exist significant contrasts, it might be argued that there are some similarities between modern Poland and the Spain of the 1980s: Firstly, Poland is a young democracy (1989) with a population of 38m; secondly, it has clear catholic roots; thirdly, prior to political transition it remained, in a certain sense, *closed* for 40 years; and finally, regarding its unit cost of labour: between four and eight times cheaper than neighbours, such as West Germany and France. Nonetheless, this comparison should be treated with caution, given that the world economy of the time of dictatorship in Spain has little to do with the high-technology, globalised and interconnected one of today.

In the past five years, headed by the regions of Lower Silesia (the city of Wrocław being a strategic area for white good manufacture), Katowice and Warsaw, Poland has become a key point of production in Europe. The Government has responded to the interests of foreign multinationals through its policy-making, generating investment aid, creating tax incentives and establishing development areas. Its main challenge now is to provide a stable workforce to the organisations installed in Poland, that is to say, to respond to the problems that have emerged from the sizeable emigration of workers seeking better conditions in the Republic of Ireland, the United Kingdom or in the Chicago area of the United States, and those of the shift of labour to the booming and better-paid construction sector<sup>122</sup>.

Some co-operatives have introduced the measure of allowing employees to take three months of leave, with a right to return, in order to benefit from the opportunities of

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<sup>121</sup> It became the EU27 with the entrance of Bulgaria and Romania in January 2007.

<sup>122</sup> One example of MNE subsequent problems, connected with recruitment and retention of workers, involves the LG plant opened near to Wrocław in 2006 that hopes to have a workforce of 10,000 by 2010. In this case, the Korean company has adopted the strategy of recruiting South Korean workers.

working in the construction sector in UK; others are examining the possibility of recruiting women for the production lines, traditionally considered to be more appropriate for men.

#### 5.5.2.2 The reasons behind multi-localisation in Poland

The primary reasons for starting production in Poland are access to the local labour market, and providing monitoring and service to the large manufacturers of domestic appliances. Apart from the cases of Ulma Construction and Fagor Industrial, which both opened sites in Warsaw, all the co-operatives operate in this sector.

Similarly to Fagor Electrodomésticos, which opened operations in Poland in 1995 with the purchase of Wrozamet, many large-scale manufacturers such as Whirlpool, Bosch-Siemens and Amica have followed a similar strategy. This has given place to supplier co-operatives following them, improving levels of service and production competitiveness. Such a situation is apparent in the cases of Eika Polska, Embega, and Tajo. In the case of packaging manufacturer Coinalde, the co-operative sought access to the East Central European market, alongside a more competitively-priced supply channel for the wider European market.

#### 5.5.2.3 Co-operatives activity 1999-2006

At the end of 2006 the following co-operatives were operating in Poland.

- Fagor Electrodomésticos (Wrocław) with a workforce of 2,000 supported by eight employees from the Basque Country and one from Fagor Brandt in France, is placed among the leaders in the Polish market. The previous local factory at Wrozamet that it bought in 1999 was left behind; under the new brand Fagor Mastercook, the plant was transformed into one of three strategic units under the Fagor Electrodomésticos Group. In 2006 it added a new plant for the manufacture of washing machines at which employees from Mondragon, France and Poland worked together<sup>123</sup>.

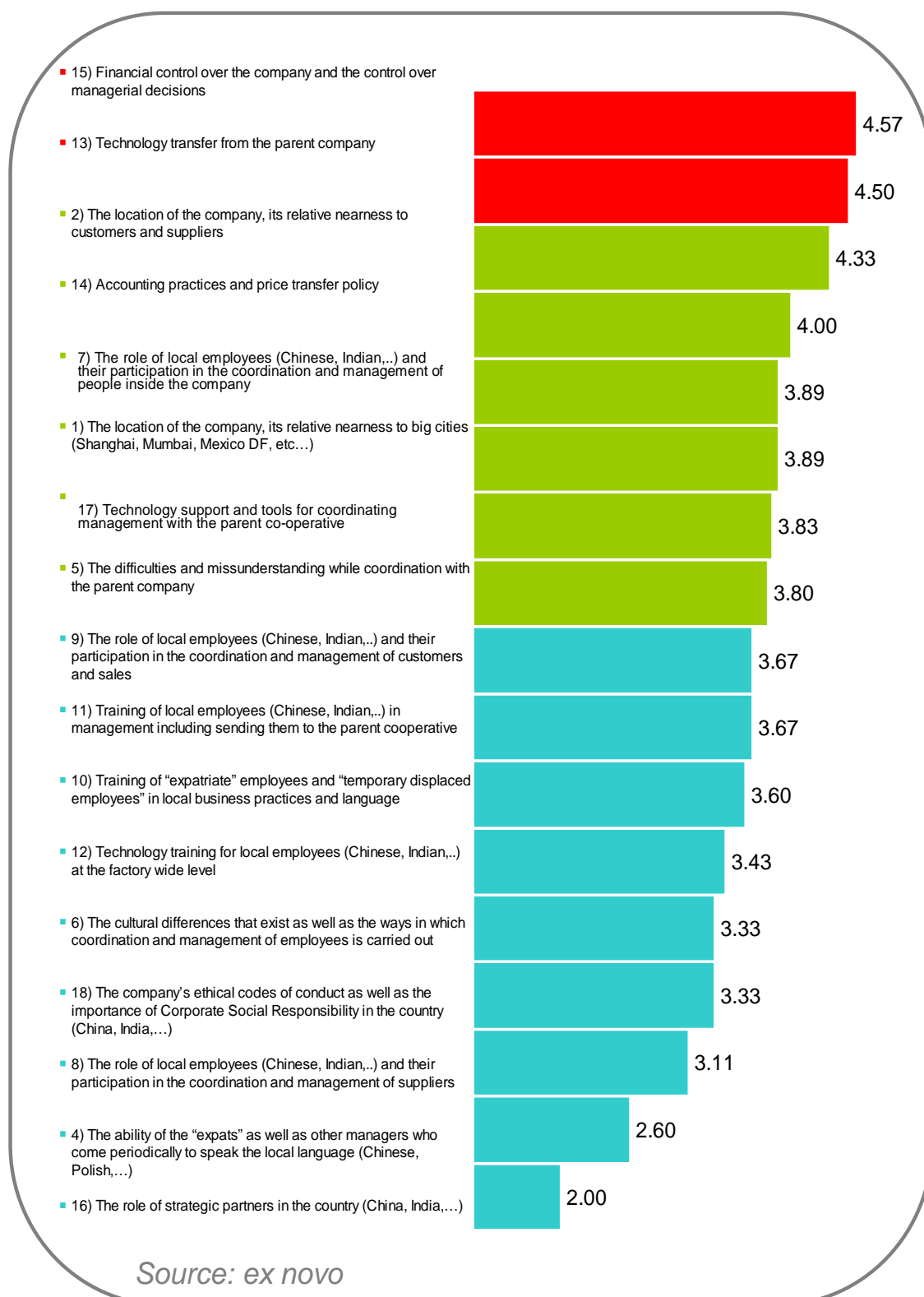
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<sup>123</sup> In order to have a deeper understanding of this Mondragon best practice see section 7.6.

- Tajo (Wrocław): After opening in Poland in 2004, by the end of 2006 it had two factories: Tabiplast 1, with 23 workers to supply large European manufacturers, and Tabiplast 2, with 21 people at the new Fagor Mastercook washing machine plant.
- Eika Polska (Wrocław): In 2005 Eika opened in Wrocław its third production plant in East Central Europe, where by the end of 2006, 70 people were employed. The plant is integrated into the Eika general structure, and has become the strategic centre for the manufacture of its *tubular heating elements* product. It has a local team in place, as well as the support of two recent Mondragon University graduates who, after completing their final year undergraduate projects at the branch, have now been brought into the local team.
- Coinalde (Wrocław): A greenfield site has been developed, around 30 minutes by road from Wrocław, with the objective of placing the company in a competitive position both regarding longstanding European markets and those in East Central Europe. At the end of 2006 it had a workforce of 22 for the manufacture of steel packaging.
- Embega (Wrocław): In 2006 the parent co-operative took on its first operation abroad with the making of *front panels* for domestic appliances, a product which had become increasingly difficult to manufacture competitively at home. By the end of 2006 it was operating with a team of 8 employees.
- Ulma Construction (Warsaw): Through the acquisition of a local company, Ulma has gained a strategic position in the Polish market. In addition, it is also accessing markets to the east in the former CIS, such as those of Kazakhstan. With a workforce of 170 at the end of 2006, it has obtained significant sales results locally, installing successfully a financing strategy that has resulted in part of its equity listed on the Polish stock market.
- Fagor Industrial (Warsaw): With the assistance of a local former Senior Manager at Electrolux, Fagor Industrial targeted the Polish market in 2000; in 2003 it initiated production and marketing of industrial electronic appliances. With a 2006 workforce of 77, it has now placed itself as one of the key players in the country.

Below is an outline of the factors which, according to co-operative managers, are considered to be the keys to success in the country.





**Figure 5.23:** Strategic success factors – Poland – Survey results

#### 5.5.2.4 The social and economic dimension

Poland now finds itself at the threshold of full integration into the EU. Despite the fact that the legal and practical dimensions to integration differ, the fundamental rights and obligations to employees are similar<sup>124</sup>.

While the Mondragon production plants have adopted the production standards of the parent co-operatives, with reference to the conditions of employees they are not different from other multinationals in the surroundings. Two of the co-operatives have a standard report that examines salaries within the immediate environment, though this objective – more than a social one that seeks to offer better working conditions – simply sets out to avoid excessive workforce turnover. As regards to the application of the co-operative principles, the most significant advance involves Fagor Mastercook, which from the beginning included two employees' representatives on the board of directors.

In spite of such a similarity in terms of the values and working culture initially found between the Polish context and that of the Mondragon local community, certain differences lie below the surface. Of such values the most significant is the appreciation of the importance of employment; “probably the Mondragon current dimension and prestige is due to the fact of being placed in a community that experienced an employment crisis which encountered 35 years ago” (Ormaechea, 2006: 103). Such a context makes employment a highly valued entity; the resultant stability is one of the guarantees of the success of the co-operative model.

After the full employment of a command economy in which the commitment and responsibility of the employee became distorted, contemporary Poland has now encountered a situation – which is the by-product of the arrival of multinationals – in which employment stability is no longer valued. The employees at Mondragon production plants constantly seek improved conditions; those of the construction sector are increasingly attractive. As previously mentioned, some production plants have opted to allow workers to spend three months per year during the summer months, temporarily

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<sup>124</sup> Certain practices are scheming. One example involves the fact that doctors can take financial remuneration for the amount of people they sign off sick, something that has given place to extremely high levels of absenteeism at the workplace.

working in the construction sector before returning upon the arrival of winter. In order to have available a significantly more stable workforce, others have studied how they can adapt posts for women. Furthermore, directors and employees at the Polish production plants seek an exponential professional career in a society in which a degree of individualism associated with the American dream is evident.

Those who have moved on to Poland (expatriates) are young professionals, some of whom have yet to find their first job. This fact makes the transmission of co-operative values and ways of working from the parent co-operative difficult. Nonetheless, the enthusiasm, adaptability and sacrifice of such professionals, linked to the fact that they are grouped together on the same assignment in the same location, allows them to maintain values, working culture, and lifestyle, leading to enhanced inter-cooperation between Mondragon production plants.

### 5.5.3 Mexico

#### 5.5.3.1 Introduction

Since the NAFTA agreement was signed in 1994, Mexico has become the reference country not only for the location of North American factories that were no longer competitive, but also for European and Asian companies willing to serve the United States and Canada from Mexico. With average growth in GDP at 4.4 % and an increase in FDI at 19% in the past six years, Mexico has experienced a process of significant change. From a weak political and economic background, the NAFTA agreement results on a reliable foreign corporations landing in Mexico. After a period of operating plants with very little added value, it is now suffering at the hands of Chinese competition. Production with a higher added value is required, as is the case of the high-potential aeronautical industry which had exports of \$400m in 2006.

There are many examples of successful plants operated by multinationals. One such case is the French Group SEB with its production of domestic appliances under the Moulinex brand that started 20 years ago; another the recent project of Bombardier Aerospace that, from its Queretaro plant that produces harnesses and fuselages, has begun recently manufacture of its first aircraft. Such spectacular development at the first level of production has had to coexist with the following: A deficient land transport infrastructure and ports of an inappropriate size that have not received investment in the past 40 years; labour legislation and an antiquated tax system that remain under constant public debate; and an undeveloped agriculture sector that makes up 25% of the economy.

In Mexico an important social gap exists among the underdeveloped rural areas and the cities of Queretaro, Celaya, Monterrey or Guadalajara where the multinationals are located. This fact is common in the emerging countries but, contrary to what happens in its Chinese competitor, democratic political uncertainty plays a fundamental role. Some economists, such as Professor Ardila of Tecnológico de Monterrey, argue that the main problems of Mexico are not in the economic sphere but in the political<sup>125</sup>.

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<sup>125</sup> Personal interview at Tecnológico de Monterrey, Queretaro (Mexico) in January 2007.

The historical dependency of Mexico on the United States economy has increased recently: While trade with the United States represents 90% of the international transactions of Mexico, only 5% of the total United States transactions is with Mexico. However, the United States is now encountering difficulties in handling simultaneously several world crises, diverting its attention to Latin America and to the political change experienced in the region; this is evident from delays in immigration policy and from changes in trade treaties.

### 5.5.3.2 The reasons behind multi-localisation in Mexico

The fundamental reasons behind the instigation of production in Mexico are both access to the North American market, and positioning in the local market. This is the case of co-operatives such as Copreci, Eika or Matz Erreka in the domestic appliance sector. In the case of Irizar, from 1994 to the present the co-operative's strategy has focussed on the Mexican and Central American markets, where it has positioned itself strategically, though it is now developing its interests in the USA market. Other co-operatives, such as Ulma Agrícola and Alecop, are focussed exclusively on the Mexican market.

### 5.5.3.3 Co-operatives activity 1999-2006

At the end of 2006 the following Mondragon co-operatives were operating in Mexico:

- Copreci (Guadalajara): The first Mondragon Group project in the country, established in 1989 as a result of the request of a USA customer. At the end of 2006 with 689 employees faces one of its greatest challenges in its near 20 years of history with the relocation of the plants of its historical USA customer to China. The production plant is lead by a Mexican CEO, which is a “collaborator co-operative member” of the parent co-operative.
- Irizar (Queretaro): With a workforce of 268 people, it is positioned as a sector leader in the Mexican market. Since starting operations in Queretaro in 1997, it has undergone a process of continuous improvement, becoming in 2006 the first production plant abroad that manufactured the *Irizar PB* model. With a practically nonexistent staff turnover, the Mexican plant is at present the one that

is most similar to the Irizar Group parent co-operative. Under a legal capitalist structure, it has adopted letter-perfect the people centred management model based on self-managed teams, with a high involvement in management and in profits for the entire workforce.

- Eika (Queretaro): the strategic plan for the period 2001-04 identified the need of operating a plant located in the American continent, to take on the *ceramic hobs* world market (Europe and USA). Consequently, on May 2004 the first component was produced from a greenfield production plant located next to the Irizar plant. At the end of 2006 it had 223 employees, 3m units were sold mainly to Electrolux and GE, has been certificated on ISO 9000 standard, and has reported profits.
- Mondragon Assembly (Queretaro): With the strategy of maintaining at the parent co-operative the core business, in 1994 opened in France its first plant abroad, then opening another in Germany in the year 2000. Also in 2002 it arrived to Mexico with the aim of analysing the NAFTA market and found a significant opportunity for the automotive sector. In 2003 it started operations in Mexico with the objective of providing both work and results for the parent co-operative. At the end of 2006 there were 20 employees at the site, focussing on Mexican and American companies in the country and initiating exports to the United States. When reflecting on the role of the operations abroad, one co-operative senior director stated: “if we had not internationalised production, we would have closed down”.
- Fagor Industrial (San Luis Potosi): With a new business plan and assistance of the Uruguay distributor, Fagor began production in Mexico in 2003. At the end of 2006, a new greenfield project was developed, employing 100 persons. The sources of income involved: sales with Latin America distributors and its offices in the USA (Fagor Industrial-Miami, and -Hawaii), direct sales, and the manufacture of refrigeration products. Its turnover reached \$8.5 billion dollars, having doubled annually since 2003.
- Matz Erreka (Queretaro): In 2000 production of plastic injection moulding began in Queretaro, meeting demand with the objective of serving Copreci in Mexico. From this production plant new customers were found in the local market. At the end of 2006 a turnover of \$4m was achieved, with 50% of this

amount sold to Copreci Mexico. In addition, sales have also commenced to the automotive sector (25%), as well as marketing of products produced at the parent co-operative.

#### 5.5.3.4 The social and economic dimension

In spite of the historical influence of Spain in Mexico, and the Spanish common language, sizeable differences in culture and managerial administration exist. The co-operatives face severe problems in the handling of both absenteeism and workforce turnover. Annual figures of over 80% at the blue collar level were observed.

It is necessary to introduce measures to tackle a certain guile, which ranges from the symbolic representation of the unions that become an annual toll for the companies to the monitoring of people at the plant or to the possible theft (or shrinkage) at warehouses. In general terms, the production plants have tried to introduce the production model of the parent co-operatives, though their social commitment is limited to the carrying out the one established by law.

It is noticeable that Irizar remains faithful to the social commitment model found at the parent co-operative. One surprising policy example involves the fact that employees do not have to clock in; attendance appears to be associated with the personal responsibility of the individual in the team. Others include profit sharing (the amount received in 2006 was 180% of the annual salary), medical insurance that is the same for all Irizar Mexico workers, and the existence of self-managed teams with a strong focus on communication. Furthermore, others include a general assembly that operates as the primary body for taking decisions related to plant operation, and a project to tackle child homelessness, with Irizar employees working a day once a year in favour of the local community.

Contrary to what is frequently thought, the case of Irizar Mexico is a surprising one and shows that, if desired, a self-management model can be established. In Mexico it is also possible to create organisations that take the co-operative social dimension forward in their production plants abroad.

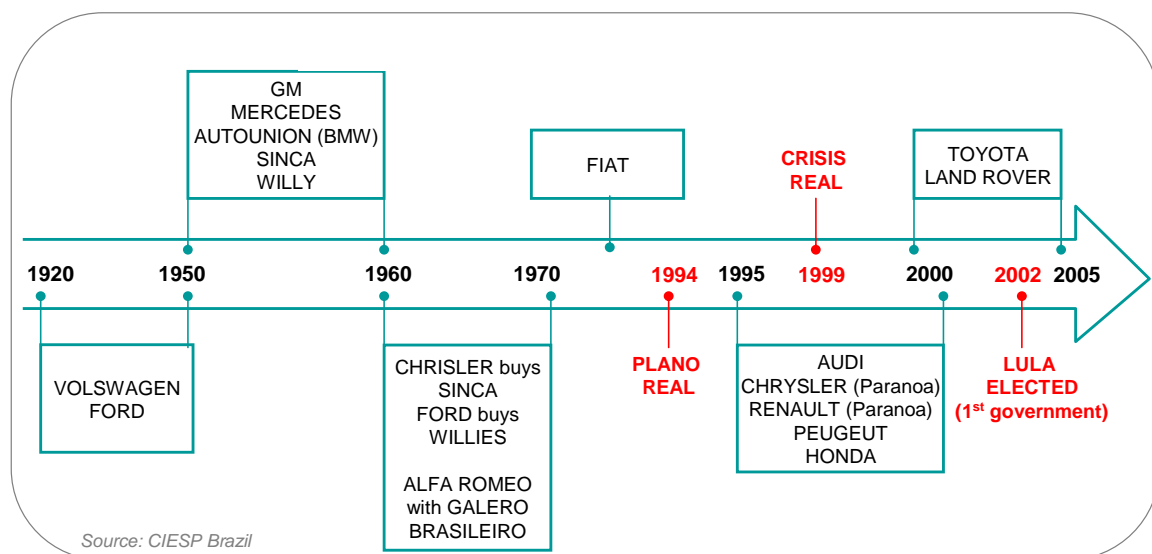
Another policy of note is the *collaborator co-operative member* and the foreign CEO policy assumed recently by the Copreci Group. After around 20 years of working with CEOs from the Basque Country, in 2006 a local Mexican manager took over the Mexican production plant. At the end of that year five employees from the branch had been proposed as collaborator co-operative members and became collaborator members in 2007.



## 5.5.4 Brazil

### 5.5.4.1 Introduction

With an average GDP growth of 2.8% in 2006, and the launch of the \$250bn “Growth Acceleration Program” (*Programa de Aceleração do Crescimento*) or PAC<sup>126</sup>, at the beginning of the second Lula Da Silva legislature Brazil is experiencing another step, though more gradualist, stable and endogenous, on its long road of industrial development.



**Figure 5.24:** Automotive sector in Brazil: main historical facts

Since the era of migration from Europe, primarily from Germany, Holland, Italy and Japan, Brazil has followed a 70-year period of industrial development led by the automotive sector. The progressive policy, started by President Fernando Enrique administration in 1990, led to the *Plan Real* in 1994, a programme that encouraged the entrance into the local economy of large multinationals. Although it did boost economic growth, the policy also had the adverse effect of causing difficulties and closure of Brazilian SMEs. In 1997 the financial stability of the country was rocked by a crisis with the *real* (the Brazilian coin), with investment in Brazil being reduced to half within

<sup>126</sup> At the beginning of Lula’s second term, he announced the PAC (short for *Programa de Aceleração do Crescimento* - Growth Acceleration Program): A vast series of measures created with the intention of solving many of the problems that prevent the Brazilian economy to grow at higher rates. The measures include among others investment in creation and recovering of roads and railways, simplification and reduction of taxes, and modernisation on the country’s energy production to avoid further shortages.

a month. While economic stability was affected by the crisis, FDI was not halted, but it was attracted by lower entry cost, until 2002 when the election of the first Labour government had an unfavourable effect on perceived risk.

After a period of initial instability that came from uncertainty in the capacity of the new administration, Lula Da Silva surprised analysts by the formation of a *continuist* government lacking radical policy shifts, one that generated stability and implemented some change that favoured endogenous growth, such as the new Growth Acceleration Programme (PAC) brought in at the beginning of the second mandate. Some reforms were introduced, such as those related with the labour market or tax issues, concerning accounting transparency that fosters a certain level of lacking *professionalism*, the local know-how referred to as the *jeito brasileiro* or Brazilian national trait.

At present, the Brazilian economy, which is the largest in Latin American with 40% of the total area GDP, is a stable source of opportunities in certain strategic sectors. As one of the purported BRIC economies, Brazil should grow exponentially in the coming years, following the present cycle of moderate GDP growth of 2006 or the forecast growth of 3.5% in 2007.

Despite the involvement of the Lula Da Silva administration, two very different poles continue to exist in Brazilian life. Thousands of families in the large rural areas or in the shanty towns at the rim of the large cities find it almost impossible to make ends meet. The larger companies from the country are entering the world markets; 2006 was the first year in which Brazilian foreign investment abroad exceeded that in the country itself.

#### 5.5.4.2 The reasons behind multi-localisation in Brazil

The primary reasons behind the beginning of Mondragon co-operatives' production in Brazil were both to have access and to gain a foothold in the local market. Such rationale applies to the cases of Irizar through a joint venture en 1997, Copreci in 2002, and Orkli in 2006. Also noticeable is the arrival of the automotive division with Fagor Ederlan in 2000, Maier in 2003, Cikautxo in 2000, and Batz in the Automodulos project in 2003.

In addition to these production plants, other co-operatives are present in the country, such as the long-standing Danobat, the Fagor Automation operation set up in 1994, Fagor Arrasate and Ulma Packaging which after operating for more than five years in a sales role in Brazil started production in 2007. Both Maier and Batz, however, left the country after facing difficulties with short term projects that had instigated. The other co-operatives, though, have been successful in enduring the periods of instability in Brazil and have now consolidated their positions.

#### 5.5.4.3 Co-operatives activity 1999-2006

By the end of 2006, the following Mondragon co-operatives were operating in Brazil:

- Irizar (Botucatu): In 1997, a joint venture agreement was reached with the local company Caio, which would allow Irizar to enter the Brazilian market where Coachkar and Marco Polo operate. Initially, this was a 50-50 arrangement, but in 1998 due to Caio financial problems the 100% was controlled by Irizar. In 1999, as a result of the sharp depreciation of the *real*, Irizar became significantly less competitive in Brazil, and was forced to take on a strategy in which 75% of sales would focus on development of markets abroad, and 25% on the Brazilian market. At the end of 2006 with a \$106m turnover, 466 units sold and large-scale production plant refurbishments, the Irizar project had become one that had met the challenges posed by a difficult market.
- Fagor Ederlan (Minas Gerais): In 1998, as a result of a contract signed with General Motors to work with the *new Corsa* model, the global supplier Fagor Ederlan started production in Brazil. In its first venture abroad, in 2000 it entered a joint venture with Fundicio Brasileira taking 100% control in 2003, initiating the development of an additional new production plant for automotive component *portamangetas* production. By the end of 2006, the 359-employee company had achieved a consolidated position<sup>127</sup>.
- Cikautxo: In 2000 the parent co-operative identified an opportunity to penetrate the Brazilian market. A local family-run business, with a payroll of 800 workers, which had fallen into the red, was seeking a global partner to resolve

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<sup>127</sup> To have a deeper understanding of Fagor Ederlan Brazil project see case study 4 in Chapter 7.

- technological and international management weaknesses. As a result, Cikautxo took a 35% stake in the company; in three years a turnaround was achieved that led to the stake increase to 50% in 2004.
- Copreci: As a result of the potential customers monitoring policy, as well as the foreseeable legislation changes in the use of gas-fuelled stoves that were to give place to rapid growth in 2002 Copreci started operations in Brazil. Copreci moved in to the Batz production plant, taking on the employee contracts of the other Mondragon co-operative, which has closed its activity in Brazil. At the end of 2006 with a 90 people local workforce Copreci Brazil had a turnover equally divided between the Brazilian market and the remainder of Mercosur.
  - Orkli: After opening a commercial subsidiary in Brazil in 1998, an encouraging growth in sales, which came as a result of the above mentioned change in legislation, led to the company taking the decision to commence production. In 2006, after having met quality control requirements, production of thermocouples started. As had been anticipated, the local market showed significant growth with the 2005 volume of 6,000 units becoming 6,000,000 in 2006 when Mikuni, Orkli's main competitor internationally, entered the market through a joint venture with a local Brazilian company. With a market share of 95% in 2005 and 85-90% in 2006, a period when market size increased significantly, the Orkli Brazil operation was in full deployment employing 10 people.
  - Fagor Automation: In 1994 the company entered the market with a significant degree of investment both in warehousing and in the local team. It was the result of a strategy defined with its Brazilian CEO, offering qualified European technology with a high level of after sales service and delivery times differentiating from those European MNEs strategies experienced in Brazil previously. After an initially difficult period caused by the devaluation of the *real*, the market gained strength in 2003. At the end of 2006 the operation in Brazil equalled 10-15% of Fagor Automation total turnover.
  - Ulma Packaging: Having worked with a local agent since 1986 and running a commercial subsidiary since 1997, the company has experienced periods of both sound performance and difficulty. As a result of a market growth since 2005, in

addition to the fact of having already a large amount of Ulma machinery sold in Brazil, in 2007 Ulma decided to open a production plant.

Additionally, the Mondragon Group has an active corporative delegation in Brazil; it is not only a reference point for those new co-operatives landing in Brazil, but also one that offers solid support for those Mondragon production plants already established.

#### 5.5.4.4 The social and economic dimension

Despite the existing cultural differences, Brazil is one of the countries in which steps forward have been taken in the implementation abroad of the co-operative model social dimension. Until now, while for the majority of the Mondragon production plant differences with other multinationals are not particularly evident, some special cases do exist.

Fagor Ederlan has not only taken on the social dimension with initiatives such as the introduction of a social equity or the study of the average salary for the respective region, but also in 2003 faced a feasibility analysis to make the Brazilian production plant a second level co-operative.

After such an analysis, the guiding committee of the parent co-operative with extensive knowledge of the Brazilian production plant considered that such a change was premature, arguing that it should start by moving forward with a management and profits participative model, prior to a step that would from a legal point of view be difficult to reverse. Hence, this was the reason for identifying Irizar Brazil as the reference point for the country.

In addition to this, and thanks to the role of the Mondragon corporative delegation<sup>128</sup>, Fagor Ederlan Brazil is the only Mondragon production plant abroad that maintains a

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<sup>128</sup> The Mondragon Group corporative delegate in Brazil maintains close relationships with the local co-operative movement. At such a movement, in addition to co-operatives of a clear social nature in certain sectors (for example, recycling and waste collection), there are industrial associated co-operatives that generally emerge from the bankruptcy of companies in the 1990s, or are artificial co-operatives that are a result of compulsory outsourcing of workers to carry out the same work out of the company. The present government has strengthened such companies with a process of professionalizing the workplace. Professor P. SINGER, the current director of the Social Economy Department at the National Government

close relationship with the local co-operative movement, having held talks with other industrial co-operatives from the same sector to explore possible cooperation.

Another step forward has also been taken by Mondragon Unibertsitatea and the Mundukide Foundation<sup>129</sup>. As a result of this collaboration LKS is opening an office in Brazil to operate there.

The Brazil case is perhaps the one at which application of the Mondragon model to a co-operative movement abroad is the most notable, though it should be stated that in terms of the degree of management significant differences do exist.

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of Brazil (*Secretaría de Economía Solidaria*), is an admirer of the Mondragon co-operative movement who when lecturing draws on the text book of socio-economic development, *Making Mondragon* (W.F. WHYTE and K. K. WHYTE, 1991).

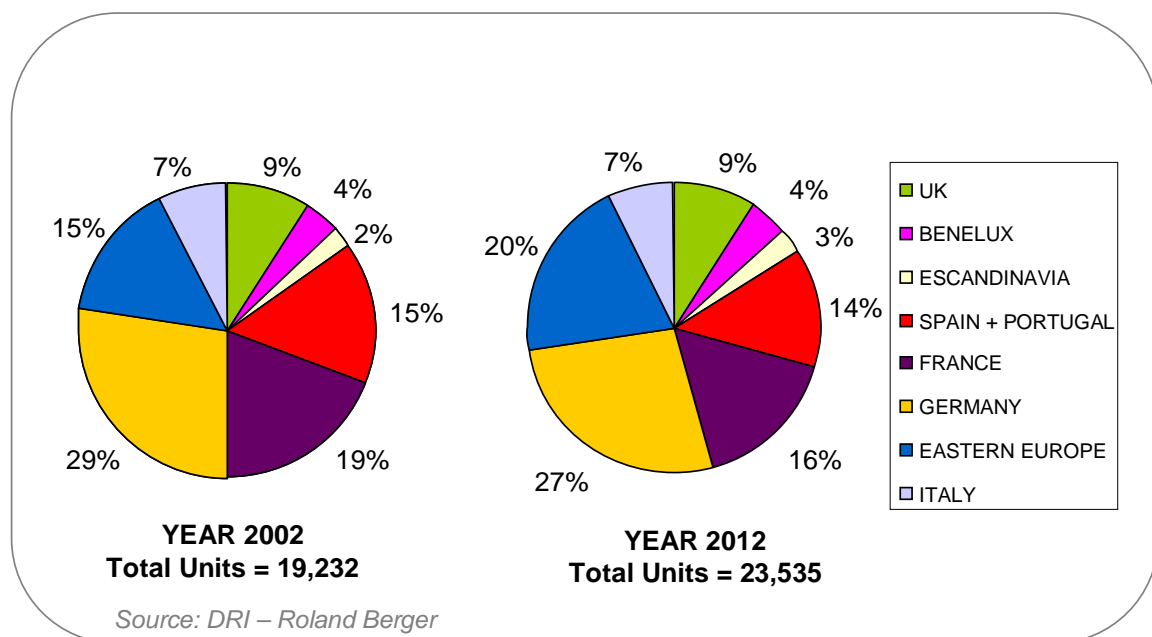
<sup>129</sup> In 2005 a doctoral student involved in a Brazilian co-operative spent four months at the School of Management in Oñati; in 2007 three representatives from the local co-operative movement received grants to study for one month at Mondragon on a Lanki and Mundukide programme.

## 5.5.5 The Czech Republic and the Slovak Republic

### 5.5.5.1 Introduction

The recent entrants to the European Union in 2004, the Czech Republic and the Slovak Republic, have experienced significant socio-economic change over the past years. Prior to separating peacefully through the divorce that the former Czechoslovakia experienced in January 2003, the (now) two nation-states had experienced a transition to democracy through the Velvet Revolution in November and December 1989 that ended four decades of authoritarian communist rule. Before occupation by Nazi Germany in the Second World War and the installation of a puppet fascist regime in Slovakia, Czechoslovakia had been one of the more advanced economic areas in Europe, enjoying significant levels of industrial and infrastructural development.

Throughout their respective histories and the present process of economic globalisation, both countries have been characterised by their strategic position in Europe. This, linked to the unit labour cost per hour (in 2003 the figure of \$3.64 in the Czech Republic was one-ninth of the \$30.60 of Germany, and one-third of the \$12.32 of Spain), has allowed it to develop itself as a new location for European automotive sector manufacturing.



**Figure 5.25:** European automotive production: 2002-2012

Car production in East Central Europe is expected to increase from 2,903 units in 2002 to 4,779 in 2012. The region is the only one with a growth in excess of 7%; the remaining production countries expect to see growth of 2% in Germany, Italy and the United Kingdom, 0.78% in Portugal and Spain and 0.26% in France.

With the purchase of the local manufacturer Škoda, in 1991 the Volkswagen Group gave place to the mass relocation of European manufacturers (the Peugeot Citroën Group at Bratislava in Slovakia), and those of South Korea (Hyundai at Ostrava in the Czech Republic, and Kia at Žilina in the Slovak Republic).

The initial phases in the establishment of sites occurred in the Czech Republic. However, a change in government in 1999 which led to reforms in value added and corporation tax, with the latter eliminating the tax on profit repatriation and making procedures for starting up companies easier, later led to developments in the Slovak Republic. Consequently, from 2000 onwards mass production started not only in the automotive sector, but also in domestic appliances, televisions and mobile handsets. Examples included Samsung (which relocated its factory from Barcelona to the Slovak Republic, where it established its new distribution centre for the whole of Europe), Sony (with two new factories employing 2,000 people) or Whirlpool (with a washing machine manufacturing site).

Usually, when a site in East Central Europe is analysed, it includes Poland<sup>130</sup> and the Czech as well as the Slovak Republic. But while these countries do share certain similarities, significant contrasts that do not usually receive the attention they deserve are evident. Contrast involves the standard of living, and consequently average wages, which were significantly higher in the Czech Republic at \$3.64, than in Poland at \$2.70 in 2003, expected to be \$5.47 in the former and \$3.83 in the latter in 2009.

Additionally, due to European Union integration process, while in the case of Poland this involved tying the Zloty to the Euro, in those of the Czech and the Slovak Republics such integration encountered a higher degree of uncertainty. This involved

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<sup>130</sup> Mainly the southern part of the country and in particular Lower Silesia is examined.



control of exchange rate fluctuation (the Czech Crown has been re-valued by 20% in the past two years), something that is crucial in the early phases of investment<sup>131</sup>.

The arrival of multinationals in the Czech and the Slovak Republics, a region that has a total population of around 15m inhabitants, has had a notable impact. At the end of 2006 the quality of life in Prague or Bratislava was similar to that of other European cities. For this reason, various companies have encountered problems in recruiting employees to their assembly lines, and they were forced to search in more isolated areas, or even look to other countries such as Bulgaria and Romania. Some Mondragon production plants, that commenced operations in an area with 20% unemployment in 2003, saw this fall to 5% by 2006.

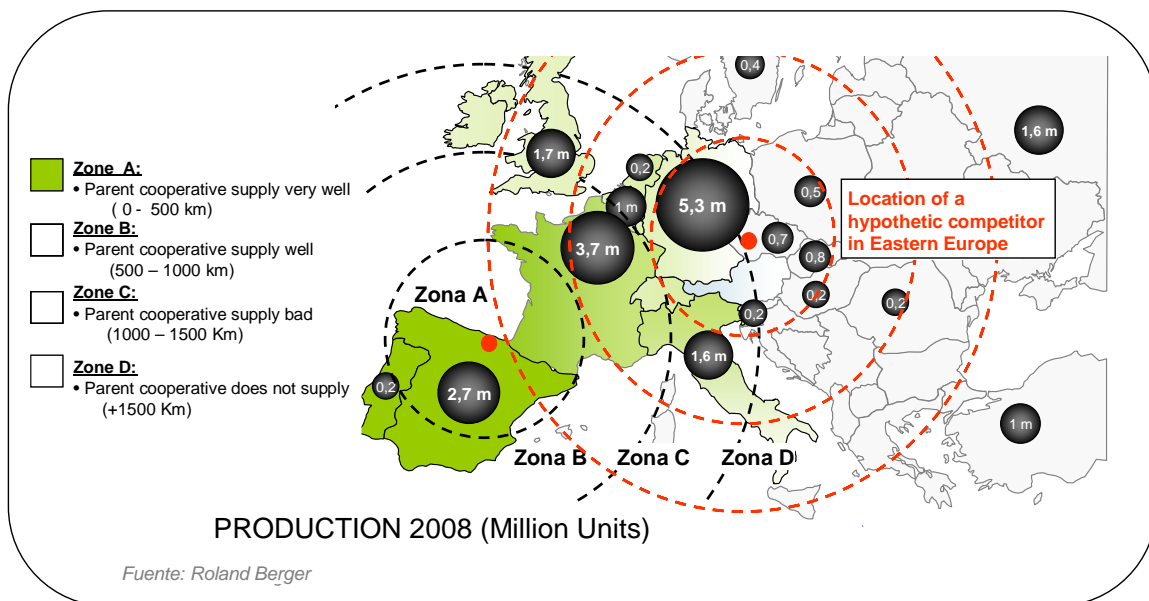
It is important to be aware of the future evolution that these countries will take; if the average salary in the Czech Republic is considered, a shift has been witnessed from 453 Crowns in 2002 to 715 in 2007, an increase of 57% in five years.

#### 5.5.5.2 Reasons behind multi-localisation in the Czech Republic and in the Slovak Republic

The main reason behind the Mondragon FDI in the two republics was the strategic location for servicing large automotive manufactures and, though to a lesser extent, domestic appliances ones. There are a large number of potential suppliers in East Central Europe located near to the new sites chosen by the multinationals, which not only compete for new potential orders with the parent co-operatives but also in the mid-term with orders currently supplied from the Basque Country. This is the response to a strategy that combines commercial interests of improved customer service, seeking an increase in sales, linked to the need to reduce production costs in countries with a cheaper labour cost.

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<sup>131</sup> This is the case experienced by Eika CZ, whose outstanding productivity management does not reflect profits due to the increased currency since the initial FDI investment



**Figure 5.26:** Automotive sector production supply: Basque Country vs. East Central Europe location

All the co-operative projects in the region share these reasons for starting production; the companies belonged either to the automotive component sector or to the components for domestic appliances. The latter has adopted a pioneer character with the establishment of Copreci in 1994 near to Olomouc, Eika with two plants in 2001 in the same Moravian city, and Matz Erreka in 2006 in a joint venture with the Czech partner Kovoplast. In the automotive sector projects began in 2006 with Maier in Olomouc, Batz in Ostrava, and Fagor Ederlan in Žiar nad Hronom.

In addition, Cikautxo operates a plant near to Prague and another in Nové Zamki in the south of the Slovak Republic, which serve both the automotive and plastics sectors. Such a strategy is shared by Tajo with two plants focussed on domestic appliances in Wrocław (*Tabiplas 1 and 2*) in Poland, and one near Olomouc (*Treboplast*) that supplies the automotive sector.

### 5.5.5.3 Co-operatives activity 1999-2006

At the end of 2006 the following co-operatives were producing in the Czech Republic:

- Copreci (Olomouc): Responding to an opportunity offered in 1994 by the local company Mora, Copreci coordinated a co-investment project with Mora, Orkli and MCC Investments as co-partners. From then onwards, the growth of Copreci led to a gradual acquisition of the partners shares by the end 2002.  
At present it sells 10% of its products in the Czech market, and the remainder to large domestic appliance manufacturers in Italy, Poland and Romania. At the end of 2006 the 213-employee production plant is one of the most solid projects abroad, with workforce turnover practically non-existent; its local Czech manager is convinced that in time the production plant will become a worker co-operative<sup>132</sup>.
- Eika CZ and Foundeika (Olomouc): In 2001 it started *cast-iron plate* production in East Central Europe with the purchase of an old textile factory, becoming the global co-op's production centre for the mentioned product in 2005. In 2003-04 it purchased a production line to provide thermostats to Eika Mexico. At the end of 2006 the 270-employee production plant was a referent in production management, applying the concepts of the parent co-operative, reaching even better productivity results.
- Cikautxo CZ (Jablonec): In 1998 the co-operative invested in the Czech Republic in order to be closer to global customers' production plants in East Central Europe, as well as in search of greater profitability in the domestic appliance sector. In addition, the decision was also influenced by the less demanding regulations concerning waste management and recycling. At the end of 2006 the 238-employee production plant was working in both injection and extrusion, serving the domestic appliance and the automotive sectors.
- Tajo (Olomouc): In 2005 Tajo ventured into the Czech automotive sector by allying with a local company to develop its presence in the country at a greenfield site. At the end of 2006 the production plant was prepared, with a workforce of 18, to start production to supply international customers operating in the region.

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<sup>132</sup> To have a deeper understanding of Copreci CZ project see case study 3 on chapter 7.

At the end of 2006, the following co-operatives were operating in the Slovak Republic:

- Cikautxo (Nové Zamki): Similar to its strategy in the Czech Republic, and with the objective of increasing capacity in East Central Europe, in 2005 started two business production lines: plastic injection, and extrusion. By 2006 had 170 employees.
- Fagor Ederlan (Žiar nad Hronom): With the objective of supplying the European market Fagor Ederlan decided to open a production plant in Eastern Europe, undertaking a study that examined a new greenfield project or the purchase of an existing company.

In 2006 the firm bought a 100% stakeholding in a local automotive components producer, located at the recently privatised Závod Slovenského Národného Povstania (ZSNP) industrial park in Žiar nad Hronom

By the end of 2006, the 160-person production plant is located at the main centre for aluminium injection in the Slovak Republic.

#### 5.5.5.4 The social and economic dimension

The Czech and the Slovak Republics are now at the door of complete integration into the European Union. However, significant contrasts exist between these two countries: on urban centres, industrial and rural areas, and their legal, fiscal and labour-legislative frameworks.

Although the production plants have implemented the production management models of the parent co-operatives, at certain recently established sites very few differences in working conditions emerge when they are compared with other multinationals. Nonetheless, one of the dissimilarities that can be found concerns those plants where blue collar workers are women, given that in those cases volatility among the personnel is less evident, with the resulting stability giving place to social commitment.

When examining the production plants in the context of the parent co-operative principles, the greatest advance can be identified at the Copreci CZ plant. It is a factory located in the most rural setting and led by a Czech CEO who is a *collaborator co-operative member* at the parent co-operative and focuses on the development of co-operative values at the subsidiary. Enjoying a very low degree of workforce turnover,

the production plant is one of those abroad that is most similar to the parent co-operatives.

Although a strong sense of belonging and national identity is apparent, the most noteworthy differences in the Czech or Slovak context are the values associated with a given post and the feeling of responsibility. In a similar way to the Polish case, it is difficult to identify a sense of loyalty to the respective job, a sense of belonging to the company, or a willingness to take on responsibility, three variables that serve as guarantees in the success in the Mondragon co-operative movement.

At present, workers are in constant search for better conditions; the construction sector is the most attractive destination. However, we are also able to find loyal workforces such as Fagor Ederlan, Copreci Cz, and Eika Cz.

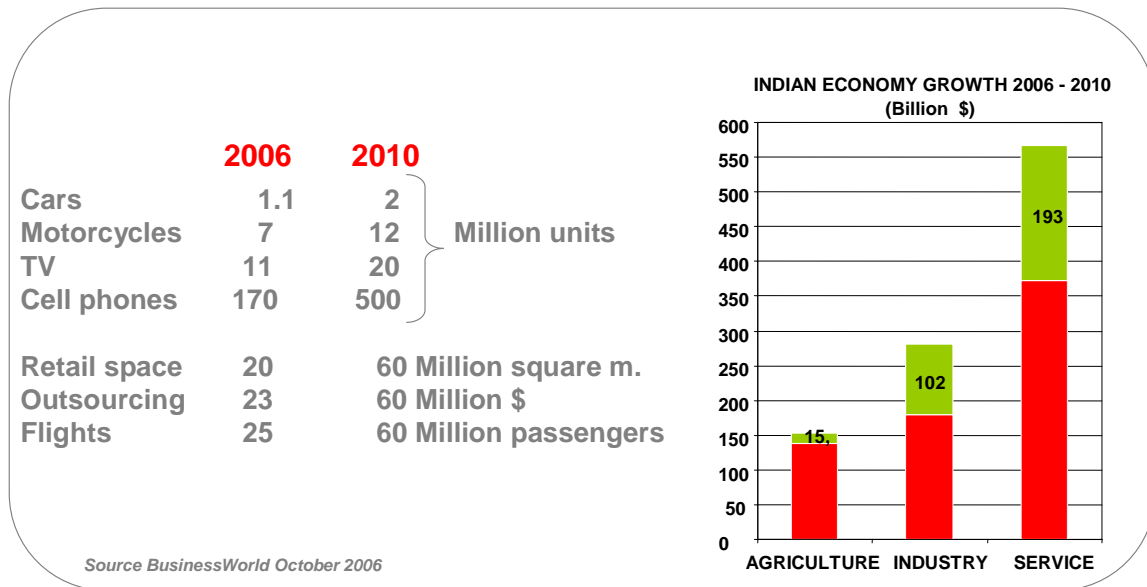
## 5.5.6 India

### 5.5.6.1 Introduction

With a GDP growth of 8.3% in 2006 and a received FDI of \$1,657m in 1990, \$17,517m in 2000, and \$45,274 m in 2005 (UNCTAD, 2006), the socioeconomic development of India is clearly taking off.

At the end of 2006 a little more than five decades after independence, the largest democracy in the world has experienced large scale change. Especially since the economic reform carried out since 1990, the country has passed from a post-independence quasi-socialist model to a one more similar to USA liberal ideas. Such reforms, little by little, have modified the foundations of the Indian economy, under a democratic structure that will not experience changes like those in its communist neighbour China. However, with the above mentioned growth, a large amount of foreign investors have been surprised by the prowling Indian economy behaviour.

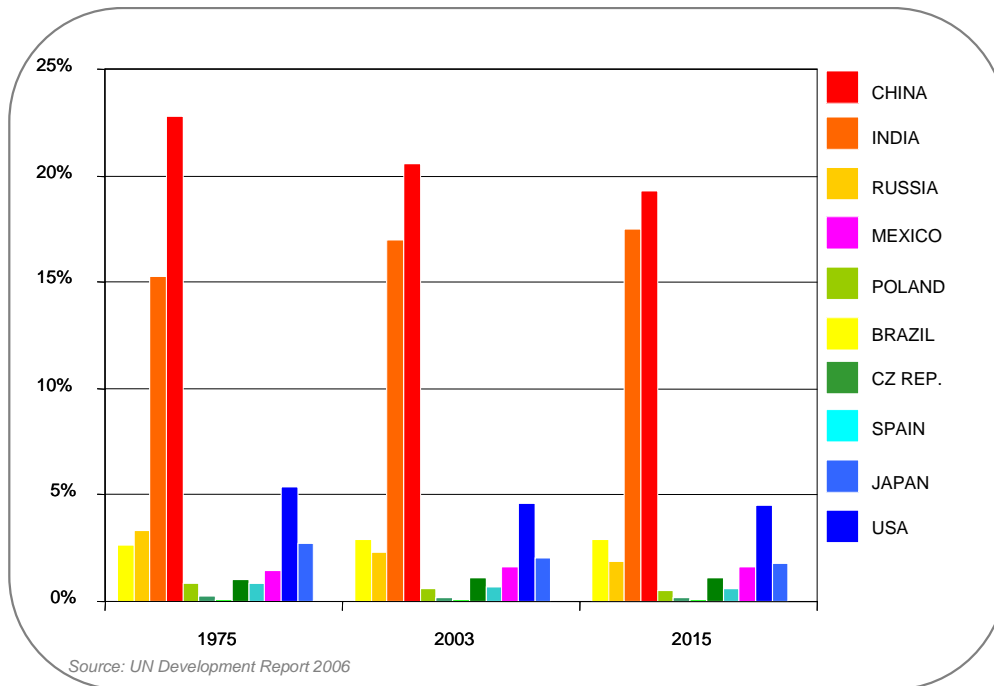
When examining the importance of outsourcing in India, software development and biotechnology – which have collectively seen exports increase from \$7bn in 2002, to \$30bn in 2006, to an expected \$80,000bn in 2010 – is well known (fig. 5.27). By 2006 newborn organisations such as Wipro or Infosys, with a workforce of 80,000 employees, had emerged on the international scene. However, while such developments are widely reported, what are less known are the current policy ambitions of the Indian Government. It proposes a consequent shift forward in manufacturing, stirred by the potential of a huge market that involves the current Indian giants (Tata, Mittal, Maruti and Reliance), and the arrival of multinationals (Suzuki, Citroën, Volkswagen, Hyundai and Haier).



**Figure 5.27:** The Indian economy in 2010

The current government project to create 300 exporting production zones (EPZs) to attract FDI, strengthens synergy between the present Indian entrepreneurial boom and the mass arrival of multinational manufacturers. New projects flourish, such as the Mahatma Gandhi High Technology Park in Pune, the Bangalore High Technology City, or the Hyderabad Cyber Park. Other new developments in outlying areas of cities, with 80 centres operative in 2006, serve as examples of 21<sup>st</sup> century India.

Although the combination of national and regional governmental units, with the demands placed on the country's infrastructure, have brought planning and development challenges, the solid legal-financial base established during the period before independence and the extensive use of English facilitate investment for non-Indian companies.



**Figure 5.28:** World population share: 1978-2003-2015

At the end of 2006 the population of India was over 1bn, and the average per capita income was \$3,779 (PPP) per year; of this figure, while 35% of inhabitants earned less than \$1 per day, the country had around 100,000 millionaires, expected to grow by 12.8% for the next three years<sup>133</sup>. The challenge that emerges is how to make an inclusive society in a country that by 2025 could be not only the most heavily populated on Earth, but also one on the route to become the largest internal market in the world (fig. 5.28).

Due to economic reforms and digital highways policy, India occupies a strategic position as the world centre in receiving outsourced services such as those in the software, medical testing, and tax accountancy sectors. Nevertheless, the Indian government is aware of the need for its manufacturing industry to follow the steps taken

<sup>133</sup> “India has fewer than 100,000 dollar millionaires among its one billion-plus population, according to American Express, a financial-services firm. It predicts that this number will grow by 12.8% a year for the next three years. The longer-term ascendance of India's middle class, meanwhile, has been charted by the McKinsey Global Institute, which predicts that average incomes will have tripled by 2025, lifting nearly 300m Indians out of poverty and causing the middle class to grow more than tenfold, to 583m.” (The Economist, December, No. 8531, 31. May 2007, “Maharajahs in the shopping mall”, pp. 76-77)



by China over the period 1978-96, its “record of poverty reduction is unprecedented in world development history” (Yao, 2000: 447)<sup>134</sup>.

The route that India seeks to follow is one that combines the research and technological skills of a knowledge society with the muscle of manufacturing. In order to face this challenge the country counts on a youthful and well-educated population that at the end of 2006 boasted the largest amount of accountants (2.5m) in the world, 700,000 qualified engineers (which equals that of the United States) and 790,000 recent science graduates with fewer than seven years experience. In addition to this, it is also equipped with world-leading educational institutions such as the Indian Institute of Management (IIM), the Indian Institute of Technology (IIT), or the Indian Business School (Hyderabad). Additionally, a huge amount of first-rate Indian academics staffed at leading universities in the United States, the United Kingdom, and Canada.

#### 5.5.6.2 Reasons behind multi-localisation in India

Similar to other ventures abroad, the principal reason for the Mondragon co-operatives opening operations in India was to access and gain a position in the local market. Such a strategy was the case of the few production plants that at the end of 2006 were active in the country: the pioneers in 2000 were Irizar, and the joint project between Danona and Coinma. Other co-operatives, such as Ulma Construction, are following a similar strategy. In addition, some manage their own commercial subsidiaries (Ampo, Fagor Industrial, and Danobat), and have enjoyed considerable increase in sales over the past years. However, up to now the Mondragon Group does not have any project that has drawn on the capacity of India as a service provider, although in 2006 MIK technology centre planned to start operations in India.

Another reason for opening operations in India is related with purchases. The corporative purchasing office of the Mondragon Group in many cases serves as an entrance point, coordinating the operations of more than 10 co-operatives that make purchases in the country, with raw material such as steel being the dominant products.

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<sup>134</sup> “According to official statistics, the number of people in poverty was reduced by over 200 million between 1978 and 1995. (...) Based on my estimation the incidence of rural poverty was reduced from 75.5%-100% (576-790 million people) to just 6.7%-13.2% (57-114 million people) on the period 1978-96”.

### 5.5.6.3 Co-operative activity 1999-2006

By the end of 2006 the following co-operatives were operating in India:

- Irizar-TVS (Trichy): In 2001 the Irizar Group undertook a joint venture with TVS and Ashock Leyland, which led to the management and implementation of Irizar as coach manufacturer in India. As a result of exponential growth, it now operates two production plants that employ 743 people in a rural location in the region of Tamil Nadu. At present, it is analysing a new settlement in Viralimalai, and another in the northern surroundings of Delhi. In 2006 it produced more than 800 units, of which 40% were exported to neighbour countries<sup>135</sup>.
- Coinma, Danona (Delhi): As part of a consortium that included other Spanish companies, the two co-operatives went into partnership with a construction company to establish their furnishings in new buildings, opening a production plant. At present, the project is in a revaluation phase, with the objective of assuring future sales growth.

Additionally, the Mondragon Group international department runs an office in New Delhi with a team of eight local staff, from where it assists companies that are taking their first steps in India, managing orders through a purchase platform provided exclusively for the Mondragon co-operatives.

### 5.5.6.4 The social and economic dimension

At the end of 2006, with Irizar-TVS as the singular large-scale production plant in the country, the possibilities of the implementation of new business were shown. Irizar-TVS is an example of a success that includes both the business and social dimensions; it has these special features: possessing a 33% stake in the three-organisation joint venture, having available a solely local team, and being relocated in a rural region far from the productively and technologically capable new India.

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<sup>135</sup> To have a deeper understating of Irizar-TVS project see case study 2 in Chapter 7.

This production plant shows the possible synergies in between the social dimension and the economic results while doing business in Asia. Additionally, it reveals the relative ease with which it can be done in India in comparison with China.

There is very little doubt that culturally India differs considerably from European countries. Nonetheless, it remains a country in which the significant contrasts encountered at first are not an impediment to apply European standards. Coherently, other Spanish production plants analysed in India reveal their capacity to implement European management models.

## 5.5.7 Other countries: Turkey and Russia

### 5.5.7.1 Turkey

#### Introduction

With a population of 74m inhabitants, a 2006 GDP growth of 5.2% and highly debated but expected entrance into the EU, Turkey is a key economy in *Eurabia* and a potential key player in the future European market. The many multinationals operative at the new business parks in Istanbul are not only seeking to gain a position in the local market, but also looking to access neighbouring markets, making the city the door to countries in which Islam is the main religion.

#### The interests and presence of the co-operatives

The primary reasons behind establishment in the country were entrance to the local market and subsequent access to Middle East and to the Islamic and Arab world. At the end of 2006 the following co-operatives were working in the country:

- Fagor Industrial (Istanbul): While the co-operative has been working in the country since 1998, it only commenced local production in 2003. At the close of 2006, with a 100 people workforce not only supplied the local market, with 95% of its sales, but also managed the commercial operations for 16 middle-east countries. However, production remains incipient; the 85% of sales have been produced at the parent co-operative in Oñate.
- Copreci (Istanbul): Consistent with the strategy of customer proximity and quality of service, in 2004 Copreci opened a production plant in Turkey. Until the end of 2006 its strategy has been to supply its global customers in the country, setting up a new greenfield production plant. At the end of 2006 the 50-employee workforce took on the development of adapting its gas cooker products to local and neighbouring countries and to Arab markets.

### 5.5.7.2 Russia

#### **Introduction**

With a population of 143m, a 2006 GDP growth of 6.7% and a 2003 labour unit cost of \$1.5 per hour (one that is expected to be \$2.38 in 2009), Russia is one of the renovated and emerging world powers. However, those companies in the country find themselves in a setting that is probably one of the most unstructured and difficult to manage. Despite the challenges encountered in Russia, many multinationals continue to be attracted by the large domestic market of the BRIC country, an emerging economy that must undergo significant change in the coming years.

Similar to the automotive, the domestic appliances sector is one of the most appealing to the multinationals that seek to gain a share of a market with 143m potential consumers. The present €14bn market is made up of approximately 60% Russian producers and 40% MNEs. The Turkish manufacturer Beco and the Merloni Group have opened production plants in the outskirts of Moscow; the latter is the most active of the foreign domestic appliance manufacturers in Russia, with a 20% of the market. Additionally, Bosch-Siemens, Electrolux, and LG have opened warehouses and distribution platforms.

#### **The interests and presence of the co-operatives**

The presence of the Mondragon Group co-operatives in Russia at the end of 2006 has been limited to the commercial sphere, with the country having been one of most active of the embryonic markets in 2006. While there are some co-operatives whose sales activities started to gain pace in the 1980s, the majority have been involved in the market for fewer than five years.

At present, a project associated with the domestic appliance sector is analysing the feasibility of production with the objective of gaining a foothold in the Russian market. The rest of Mondragon co-operatives have not yet considered opening production plants in Russia.

At the end of 2006 Copreci, Danobat, Danona, Eika, Fagor Arrasate, Fagor Electrodomésticos, Fagor Industrial, Orbea, and Orkli were commercially operating in the country.

- Danona: Entered Russia at the end of the 1990s through an agreement with a local distributor, later reaching a turnover of €6m. However recently competition has increased both with regard to low range Chinese products and to the higher quality Italian; the co-operative has been unable to adapt its own product range to defend its market position. Currently, it is working with new distributors on reclaiming its market share.
- Orbea: Alongside the Mondragon Group corporative delegation in Moscow, Orbea accessed the market in 2004. With sales of €1.3m in 2006 works with three distributors in the Russian market.
- Orkli: The co-operative is a supplier of Gasmás, the leading Russian producer of domestic appliances, which operates seven plants in the country that boast a market share of 30%.
- Copreci: Continuing its international strategy of customer monitoring, is studying the feasibility of entering the country, following the large manufacturers production projects in Russia.
- Fagor Electrodomésticos: It is one of the co-operatives that consider Russia strategically important in its current international market policy. In 2006 in its first financial report from its operations in Russia, it reported a turnover of €1m. At present, it is working on a highly significant project.
- Fagor Arrasate: With a 2006 turnover of €30m, Fagor Arrasate is without doubt the co-operative with the highest volume of sales.
- Danobat: In the 1980s it was the first co-operative to enter the Russian market, and since then it has been a supplier of machine tools.
- Eika: In its policy as a world supplier, Eika sees Russia as a strategically important country. From now on it supplies components for local domestic appliance manufacturers all over the country.

## CHAPTER 6: THE INTERNATIONAL EXTENSION OF THE MONDRAGON GROUP CO-OPERATIVE PRINCIPLES. PHASE II-b

Once those 25 Mondragon global co-ops have been analysed regarding their international strategic performance, in the following are presented the survey results for Mondragon co-operative principles regarding international extension and international management success factors.

The topics to be analysed in this chapter are:

- Survey population and general facts:
  - Understanding of the Mondragon co-operative principles international extension.
  - Keys success factors of the international production plants management.
- Results and findings in the international extension of the Mondragon co-operative principles:
  - Facilitating factors and incentives.
  - Limitations and barriers.
  - General understanding.
  - Results and findings in international management strategies and success factors.
- Survey results conclusions.

### 6.1 SURVEY GENERAL FACTS

The phase II survey as a whole took place in between December 2005 and July 2007 while conducting personal interviews with the Mondragon Group directors and employees working at production plants abroad and also with consultants, academics or managers, outside the Mondragon Group who are experts on internationalisation processes and/or specific international market<sup>136</sup>.

When analysing “the international extension of Mondragon co-operative principles” the data were gathered and analysed as part of the mandatory section: “Section 6 & 7” of the personal interviews questionnaire (see appendix I).

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<sup>136</sup> To have a deeper understating of the profile of the people who have been interviewed see section 2.5.1.3.

A total of 33 interviews were considered as valid answers (N=33).

The interview asked about the following three main topics:

- Facilitating factors or incentives for the Mondragon co-operative principles as regards the international extension to production plants abroad.
- Limitations or barriers for the Mondragon co-operative principles as regards the international extension to production plants abroad.
- Mondragon co-operatives' current challenges and trends in their internationalisation process.

When analyzing the key successful factors, a total of 25 valid results were obtained by personal interviews codification, related to mandatory sections in the questionnaire: "Section 1 and 2" (N=25).

## 6.2 RESULTS AND FINDINGS IN THE INTERNATIONAL EXTENSION OF THE MONDRAGON CO-OPERATIVE PRINCIPLES

### 6.2.1 Facilitating factors and incentives

According to the survey results, there are four groups of incentives and initiatives to deploy (Maximum, High, Medium, and Low importance), based on the average importance given by respondents:

#### **Maximum importance:**

1. Appointment of local employees to management positions.

#### **High importance:**

2. Cross cultural educational experiences and exchange programs for future Basque employees in foreign countries, and for future foreign employees in the Basque Country.
3. Communication of the social reality of the production plants abroad to the parent co-operatives local community.



4. Visits and stays in the parent co-operatives and in other production plants of the employees from production plants abroad.
5. Training on the Mondragon co-operative model for the potential managers of the production plants abroad.
6. Training for new joiners of overseas production plants; or Mondragon University initiatives abroad with a similar role of the historical Mondragon Polytechnic School.
7. Course of time, time needs to pass by.

**Medium importance:**

8. Deployment of management models used on a global level in all the plants, including design and management of plants.
9. Clustering of the production plants, or shared locations in industrial areas abroad.
10. Double key legal articulation: increasing management participation, benefits and ownership, and ascertaining loyalty to the parent co-operatives' interests.
11. To increase the importance, support and activities of Mondragon Group Headquarters abroad.

**Low importance:**

12. Financing or sponsoring of common community projects between Mondragon production plants abroad.
13. Debate groups about overseas co-operative values for local employees and expatriates.

**6.2.2 Limitations and barriers**

According to the survey results, there are three groups of limitations, based on the average importance given by respondents:

**High importance:**

1. Lack of knowledge about the foreign country in the parent co-operative members and managers.

2. Lack of clear desire to promote co-operative principles abroad by the parent co-operative members and managers.
3. Lack of co-operative training for employees abroad.
4. Lack of knowledge about the culture of those foreign countries where Mondragon production plants are located.

**Medium importance:**

5. Impossibility of paying initial membership fee by the employees working at production plants abroad.
6. The low profitability or losses in the production plants abroad makes it impossible the present planning.
7. Lack of interest or denial by overseas production plants' employees, communities, and socio-cultural environment.
8. Lack of training in co-operative values of the expatriates.
9. Unavailability of employees in foreign countries as potential co-operative members.

**Low importance:**

10. Some people believe that foreign employees don't have the same rights and duties as parent co-operative employees.
11. Lack of time to think and deal with the problem.
12. The present urgency to stop de-localisation, and to prevent unemployment in the parent co-operatives do not allow to plan for it now.
13. Lack of knowledge of the objective accounting on profits and losses in the overseas production plants, due to unclear accounting practices.
14. Limitation or legal impossibility for forming co-operatives abroad.

**6.2.3 General understanding**

According to the survey results (N=23), Mondragon managers were asked to agree or disagree with 10 statements. Here are the results (fig. 6.1):

**Totally agreed:**

- It's necessary that every global co-op worker be included in a company project which values people and work as its focus.
- The co-operative company does not define itself by its legal form but by its shared democratic values, regarding all its employees, independently of country or nationality.

**Agreed:**

- Work in the co-operatives need to be respectful and coherent with the work and sacrifices that fellow co-operative members have done to arrive at the present achievement.
- It is necessary to engage employees and co-operative members in the social reality of the places where oversees production plants are located.
- It is possible to develop social models, inspired by co-operative values and principles, which allow MNEs to be coherent with co-operative principles.
- Rights and duties of foreign employees should be the same as those at the parent co-operatives, although adapted to the socio-economic reality of the country.
- It is necessary to develop company models and legal frameworks which allow employees participation in management, benefits and ownership, independently of location and nationality.

**Neither agreed nor disagreed:**

- It's not possible to apply the Mondragon traditional co-operative model in the whole world.

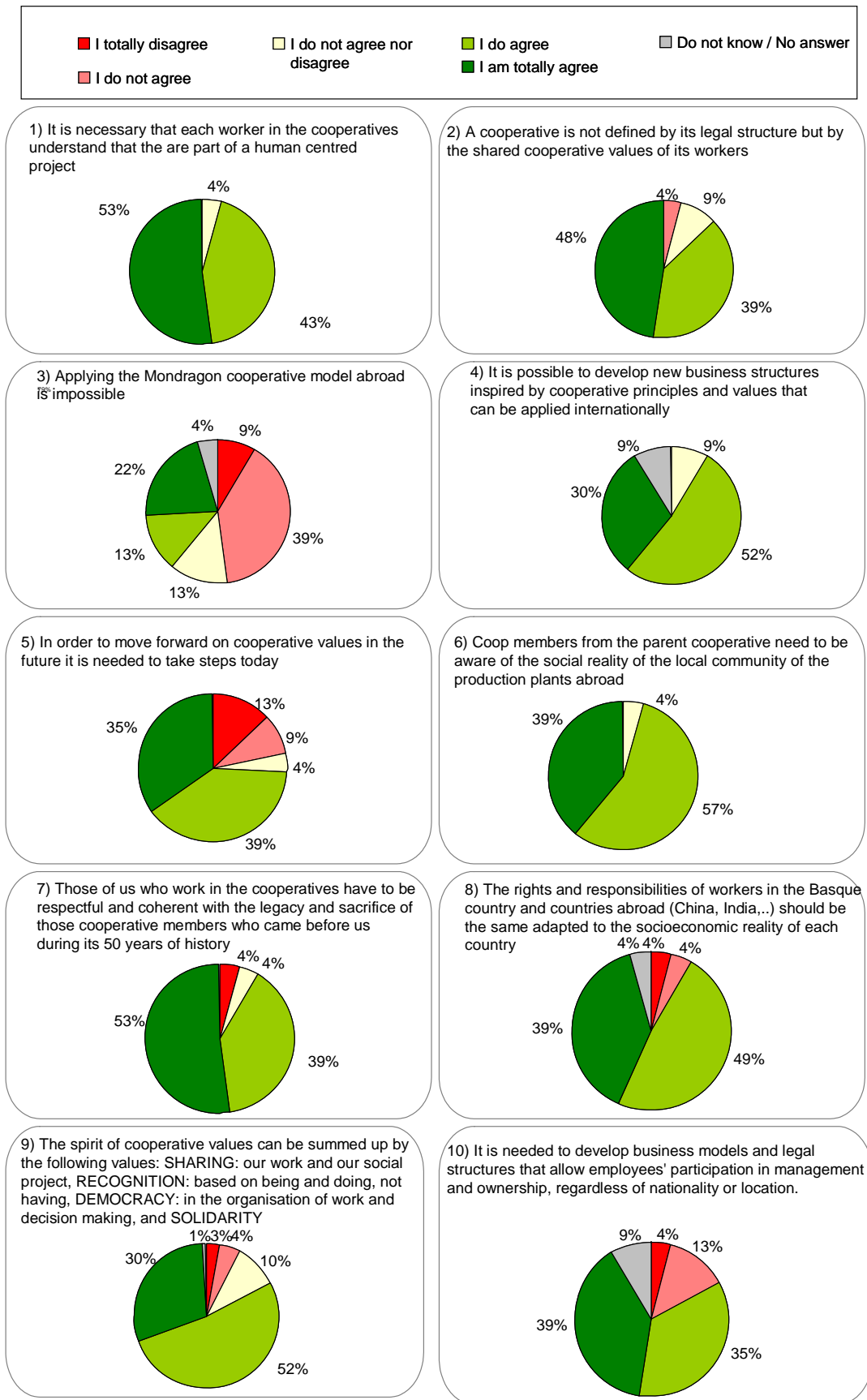
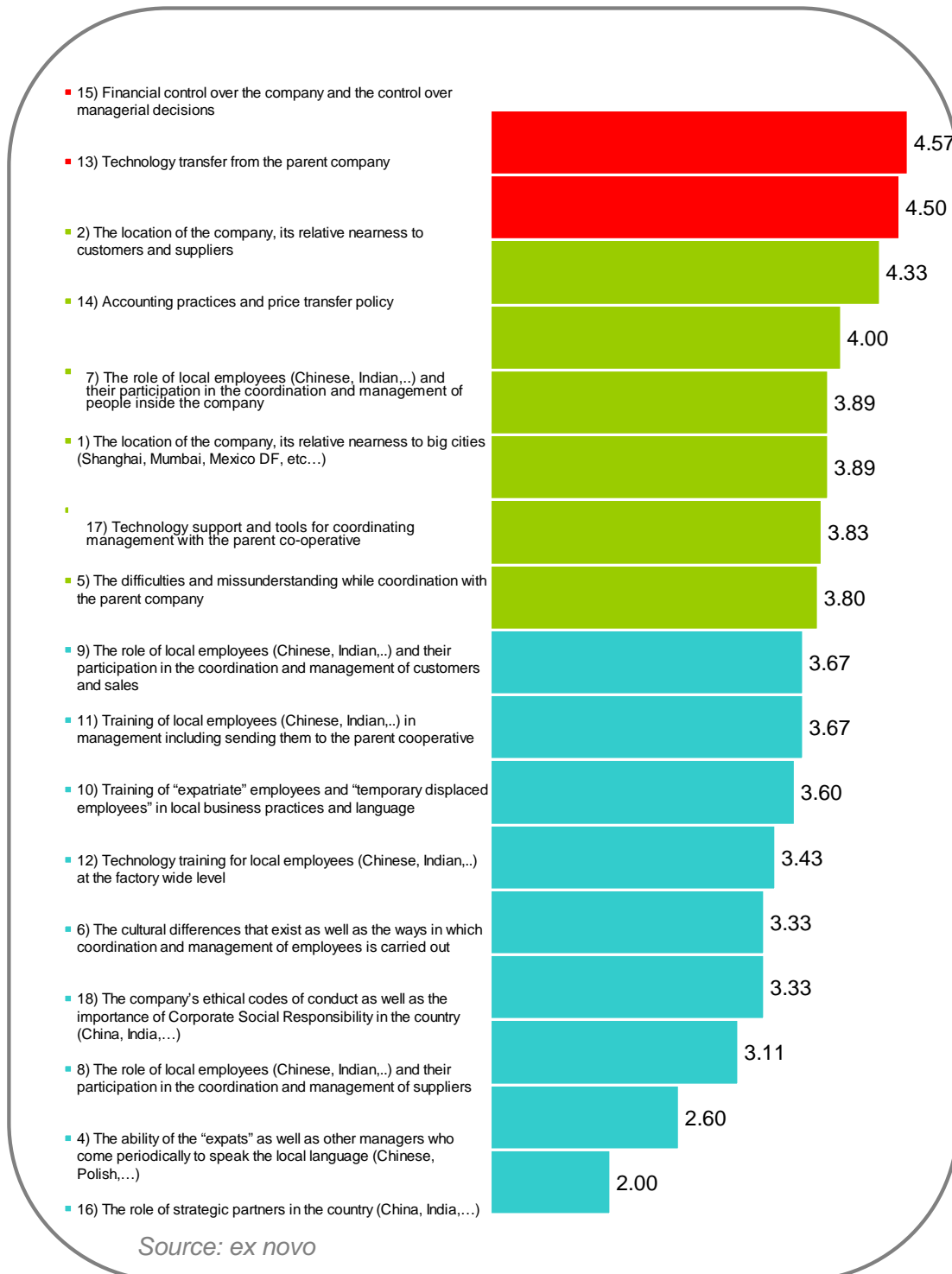


Figure 6.1: The Mondragon Group essence trends – Survey results

### 6.2.4 International management strategies and success factors

Below is an outline of the factors which, according to co-operative managers, are considered to be the keys to success in their operations abroad.







**Figure 6.2:** Strategic success factors – Total – Survey results

### 6.3 SURVEY RESULTS CONCLUSIONS

The results of analysing the interviews allow us to have the opinion of the co-operative employees who work in the production plants abroad. This is the first time that the so-called expatriate employees have been interviewed about the key success factors in the production plants abroad, as well as about the limitations and the initiatives related to the expansion of co-operative principles in the subsidiaries abroad.

Limitations or barriers to the spreading of co-operative principles:

-  Lack of knowledge about the foreign country by the parent cooperative members.
-  Lack of clear desire on to promote cooperative principles abroad by the parent cooperative members.
-  Lack of cooperative training by local employees abroad.
-  Lack of knowledge about local cultural aspects abroad.

**Figure 6.3:** Main limitations for the international extension of the Mondragon co-operative principles – Survey results

It is to be emphasized that the most important obstacles, unlike what is usually believed, are clearly those posed by the co-operative members themselves. The lack of knowledge in the co-operative society as a whole about the requirements to compete internationally increases the power of the board of directors while minimizing the knowledge of- and the democratic control over the managerial decisions. And all this increases the possibility of committing errors. There are a variety of points of view within each co-operative; nevertheless, for the most part occurs as a routine a rubber stamping of decisions at the level of assembly or at that of the board of directors.

For example, the decision to acquire the 100% of the French company, Brandt, by the Fagor Electrodomésticos Group, was approved in the general assembly with more than 80% of the voters, with this one condition: the “decision is approved as long as it does not require the loss of jobs in the parent co-operative, or an additional investment by its members”.

It is crucial for the co-operatives to make an effort in order to become aware of the social reality of the countries where their production plants are located. Lack of knowledge about the foreign site has led to a position of little interest concerning the furtherance of the co-operative model abroad.

Members of the co-operatives are aware on the whole that the fact of expansion abroad has been taken to protect jobs in the parent co-operatives. However, they do not know what the actual situation abroad is like, or even if it would be possible to extend there the co-operative principles. In fact, the meeting of social commitment abroad or the devising models in line with the co-operative pattern has not even breached in most co-operatives.

At the same time, there has been a strong commitment on the part of the membership of the Mondragon co-operatives as regards the parent co-operatives local community. This commitment should be reinforced and emphasized, in addition to raising awareness about the reality of the countries where the production plants are located, in order to create interest around these issues. Currently, TU Lankide and Mundukide are the only initiatives in this area, even though in TU Lankide the analysis generally focuses on the business dimension of foreign countries. In the case of Mundukide there is no coordination between the areas where the co-operatives have their plants and the areas where the NGO has its projects. The coordination of Mundukide's projects in the places where the production plants are located could serve as an important catalyst for the co-operatives to get inspired in order to assume an active role in developing the social side of the production plants abroad.

There are also limitations within the production plants themselves abroad which for the moment have not been addressed in their relation to the social commitment of the co-operatives. There is generally no monitoring of the basic social issues faced by the plants, such as workforce turnover; this when measured is not compared or connected to the situation of other plants in the same country. Practically, all managers assert that they have a turnover rate that is less than the national average of the countries in which they operate; nevertheless, in some cases, when measured, turnover rates could reach more than 60% per year.

Not monitoring turnover has been identified as one of the key factors that limit the social dimension of the project. Clearly, the best way to address this issue is to offer wage scales that are higher than the average for the said country.

With the exception of few cases in the analysed forty subsidiaries, the local wages in comparison with other companies has not been specifically studied by the production plants abroad.

The stated facts sustain the following assertions:

- 1) The wage structure in the subsidiaries is not better than that of similar companies in the same area, and a high proportion of employees leave the subsidiaries to go to work elsewhere.
- 2) It is impossible to make social improvements, or to create a work-culture when turnover is so high (in some cases a turnover that was above 80% per year has been found).
- 3) The fact that the relative cost of labour as part of the overall production costs is low, particularly in so called low cost countries (LDCs), has caused a change in the policy of being strongly committed to people. Contrary to the general belief that high turnover is a fact of life in the countries where the subsidiaries are located, there are cases in every analysed country (except China) where can be found companies that after creating better working conditions and adopting a higher wage scale have normal or even low rates of turnover. This occurs especially in the case of female assembly lines.

At the beginnings of the co-operative movement the historical circumstances in the Mondragon valley have much more in common with the countries, where the subsidiaries are located now, than with the present reality of the parent co-operatives. This is particularly clear when the ability of workers to meet basic familiar and professional needs are considered.

At the same time in most cases the experience of the expatriate director is limited to the business operations, except for some unusual circumstances, for instance, when trying to find local partners. However, as a matter of fact they do not have normal social channels to enter properly into the local culture. In addition, there is a lack of avenues for employees in the local countries to get to know the social dimension of the co-



operative project. In some production plants abroad there is awareness on the part of employees about the co-operative nature of the parent company, even though generally it is only at the level of management.

Contrary to the general belief, from the survey answers little emphasis was found on other limitations thought to be drawbacks: the lack of interest in potential members, or the legal limitations to create co-operatives in the said countries. The managers with greater experience in the production plants abroad maintain that the interests of the workers at the parent co-operatives for their working conditions are similar to that of the workers in the subsidiaries.

What they don't expect is that employees in production plants abroad will have the same level of loyalty and commitment that the workers in the parent co-operatives. To achieve this will be necessary a clear policy in promoting employees participation and / or wages that are equal to or higher than those of other multinationals.

At the level of management, it appears to be more difficult to create a sense of loyalty and to avoid turnover, for there is a speculative nature in the market of this kind of employees. Therefore, some co-operatives, in addition to paying a high salary, offer also to the local managers the option of becoming a shareholder of the production plant abroad or a collaborator member of the parent co-operative. In this case they feel a sense of ownership.

### Incentives and initiatives to promote the spread of co-operative principles abroad:

- Appointment of local employees to management positions.
- Cross cultural educational experiences and internships for future Basque employees in foreign countries and future foreign employees in the Basque country.
- Communication and engagement actions of the production plants abroad social reality to the parent cooperatives' local environment.
- Foreign employees' visits and stays in the parent cooperatives.
- Training on the Mondragon cooperative model for potential overseas production plants' managers.
- Training for overseas production plants' new employees or Mondragon University initiatives abroad with a similar role of the historical Mondragon technological school

**Figure 6.4:** Main incentives and initiatives for the international extension of the Mondragon co-operative principles– Survey results

Firstly, the issue of incorporating local employees in the management of subsidiaries is of paramount importance. This fact must be interpreted with great care, for the expatriate directors play an important role in the success of the production plants abroad. As in the interviews the expatriates agree that their role is a fundamental one in the integration of local workers, so it is necessary to incorporate local workers who can be trained as managers. Managers in the subsidiaries believe that between 3 or 5 years they will have a complete local management team; in the case of China this will take probably 10 years.

The combination of an expatriate and a strong local leader seems to be at the moment the best solution for the subsidiaries abroad, with a local manager taking charge of the day to day operations but under the supervision of an expatriate. The main requirement is however that both, the expatriate managers and the local managers, have known records and professional experience; besides, for the expatriate director is necessary to have previous experience in the parent co-operative.

The second important point is that the responsibility for training lays on Mondragon University, Alecop and Otalora. Mondragon University has to forge international agreements that create exchanges of potential subsidiary and parent co-operatives employees. These programs could be implemented by training centres or by agreements

with existing centres in the mentioned countries, on the condition that technically qualified personnel is also schooled in the co-operative values. These programs will be a warranty for the future workers skills, fully trained both in technical capacity and in values.

The model of Alecop, allowing students to combine work and studies in the countries where the production plants are located, appears useful, because gives them the opportunity to work and study while at the same time they are able to bring money home. This policy promotes the poorest access to higher education (technical training, and university studies), reducing social inequality.

In the case of Otalora, the expatriate directors emphasize the need to provide training of the co-operative's model for managerial development. Up to now these employees were not considered as potential students of Otalora, but could be an important new opportunity.

Those Mondragon international training and educational programs could socialize knowledge, resulting on a bigger economic and social impact at the parent co-operatives and abroad. At the same time, they could promote a better understanding between parent co-operatives and production plants abroad, that will democratize power<sup>137</sup>.

Next come the need to create a model that promotes mobility and internationally professional careers. This allows for the exchange of skilled workers and managers between the plants of each co-operative, and gives the opportunity for training experiences. It is surprising to learn that the majority of expatriate directors believe that upon returning back home they will easily slip away from the co-operative structure. Some recognize that they must switch to a different co-operative or even to capitalists companies where their experience will be better valued. This fact shows the shortcomings of the local Human Resources policies and structures in the parent co-operatives. It is important for them to take into account the international dimension of the professional careers of those who work in the co-operatives. Doing so would allow for:

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<sup>137</sup> "Knowledge must be socialized so that power can be democratized" (J.M. ARIZMENDIARRIETA, 1999 : 82)

- 1) Improved quality of expatriate workforce, which would increase the probability of success of their foreign undertakings.
- 2) Having an international understanding at the parent co-operative strengthening the global company competitiveness.
- 3) Avoiding the *de-capitalisation* of the co-operatives, especially in those with international experience.

Just as it has been mentioned in the section on limitations, so here, the role of raising awareness and promoting communication is mentioned again. A clear call is made to add an international dimension to the means of communication, as new methods are incorporated into companies (newsletter, web, blogs, etc.), that are appropriate for an international, multilingual, bi-directional context.

At the level of each individual co-operative the need to promote internal communication on all levels has become relevant; the reason for it was the diversity of languages, production centres, cultures and societies.

At the level of the whole group, in addition to the importance of communicating the social dimension of the countries where the subsidiaries are located, the need to communicate the history and the current situation of the co-operatives was emphasized. However, new multi-lingual, asymmetric, virtual communication channels are needed, capable of mass dissemination.

Finally, the last issue raised will be that of the course of time, without a doubt a difficult issue to manage: the impact of the international multi-localisation strategy (this has created 14,216 jobs abroad, that represents the 33.59% of the total workforce of the Mondragon industrial co-operatives), which for the moment represents a still manageable and ideal size for promoting the social dimension. On the other hand, if the social dimension is not addressed, perhaps in the coming future the actions taken will have to be reactive, due to the fact that they will be carried out in a mixed model: capitalist, and co-operative. As the recent history shows in the economic dimension of the co-operatives, reactive measures have a greater cost, a lower probability of success, and more radical decisions; the pro-active measures have a lower cost, a greater probability of success, and a gradual implementation.





## CHAPTER 7: BEST PRACTICES OF MONDRAGON PRODUCTION PLANTS IN EMERGING COUNTRIES. CASE STUDIES. PHASE III

### Introduction

This is the fourth chapter of the research project and deals with the empirical analysis, following the methodological framework: Phase III (see section 2.6).

Chapter four has analysed Mondragon Group employment growth in the period 1996-2006, and the impact of globalisation on the stability of the Mondragon local employment community (Phase I). Chapter five described the Mondragon Group international multi-localisation strategy, its evolution, and how Mondragon global co-ops implement their strategy abroad. While chapters six presented the results of 115 interviews conducted with Mondragon managers at foreign sites, outlining the success factors, the incentives and the limitations for Mondragon co-operative principles extension to the production plants abroad (Phase II).

The objective of chapter seven is to present and to describe some of the Mondragon Group best practices in CSR management coherent with co-operative philosophy as regards the production plants abroad. It has been explained already in chapter two that a common template methodology has been defined to examine the following case studies, including:

- Parent co-operative understanding
  - Introduction
  - Original reasons behind international multi-localisation
  - International activity in the period 1996-2006
  - Social and economic goal
- Industrial subsidiary understanding
  - Background and current situation
  - History and motivation
  - Employment analysis
  - Economic performance
  - Implementation process
- Best practices analysis

– Overall conclusions and lessons learnt

All this includes an analysis of production plants abroad as different from the parent co-operatives, with the aim of presenting the possibilities to assume social and economic objectives, no matter which is the industrial sector of the parent co-operative. It includes analysis of the subsidiaries working in different economically emerging countries (China, India, Brazil, Poland, the Czech and Slovak Republics, Turkey and Mexico), in order to present the possibility of examining social and economic objectives, regardless of the specific country subject to examination.

It should be noted that the overall case study analysis does not intend to reflect the standard reality of the Mondragon Group production plants abroad, but rather those best practices that might be used as a point of reference or inspiration for Mondragon industrial co-operatives while assuming an international multi-localisation strategy<sup>138</sup>.

Every case study has been carried out following a first hand analysis of the production plants abroad, with several interviews involving expatriates from the parent co-operative, local managers, and both white and blue collar employees. Parent co-operative and subsidiary archival data have been studied in order to be later presented for each case study in figures with common methodology. The case studies have been reviewed by each subsidiary and parent co-operative managers, including their feedback and the recommendations at the final version.

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<sup>138</sup> The same analysis might have been conducted by studying the worst practices in order to present what should be avoided while operating abroad. Future research could be focused on this task.



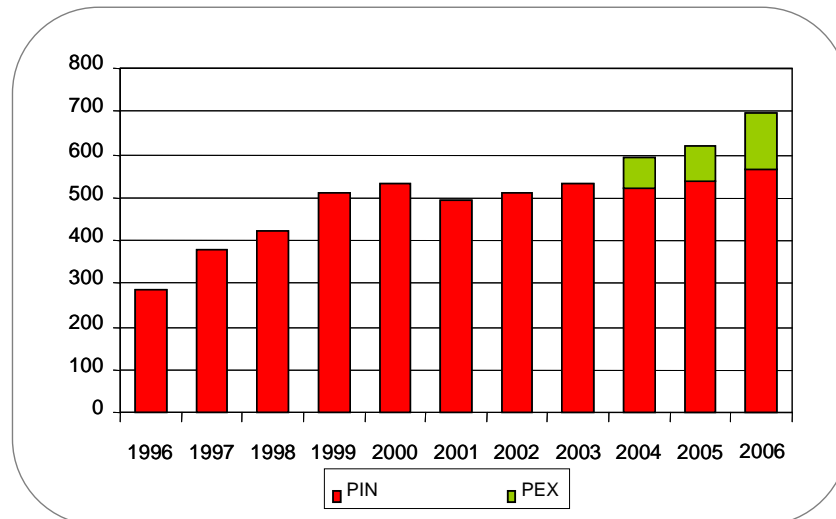
## 7.1 CASE STUDY 1: ORKLI CH (CHINA)

### 7.1.1 The Orkli Group

#### 7.1.1.1 Introduction

Orkli S.Coop was originally established as a part of the Mondragon co-operative Copreci Division II in August 1974; in 1982 it was spun off in order to create employment opportunities for women in the town of Ordizia, and today Orkli produces and sales the following items for the heating and appliance sectors: valves, safety units and thermocouples, and is a world leader in the production of safety systems components for gas cookers.

At the end of 2006 Orkli had 697 employees; at the parent co-operative in Ordizia, (Gipuzkoa-Spain) 562, and from these 476 were co-operative members. At the manufacturing plants abroad 135 were working in China and Brazil.



**Figure 7.1:** The Orkli Group: global employment (1996-2006)

### 7.1.1.2 Reasons behind international multi-localisation

The fundamental motivation for undertaking an international multi-localisation strategy was to strengthen the Orkli product line for gas cooker safety systems. This particular market niche is characterised by:

- Having a few large high-volume appliance producers as customers (Electrolux, Bosh Siemens, Fagor and General Electric, amongst others) and a large number of local producers located in emerging countries with low product volumes.
- The existence of two or three large companies that compete as global suppliers with high quality products (like Mikuni), and also a multitude of small companies in emerging countries that represent potential competitors and at the same time offer lower quality products, while rapidly evolving thanks to the massive growth of their local markets.
- The critical importance of gas cooker safety components, and the existence of only a few specialised producers of these products in the world. This fact allows for relatively high prices and so also for high margins, which leads to profitability and for the necessity of continual investment in innovation, while increasing the interest for potential competitors to enter in this particular market.
- The specifications of gas cooker safety components in different markets vary, due to the demands of each appliance producer and to national and local regulations. The countries concerned could be divided in two groups: developed countries that have strict safety demands (such as those in Europe, North America and Japan), and emerging countries with lower but quickly evolving safety requirements (such as Brazil, China and Mexico).

Due to these key market characteristics, Orkli found it necessary to open a production plant outside Spain in 2004 in Ningbo (China), in order to prevent the potential growth of local competitors. As a result, the strategy can be considered as proactive, attempting to claim market share in an embryonic market that has a colossal potentiality. This strategy tends to achieve the following results:

- The preventing of growth in the local competitors, that could become strong in their local market and be future threats, not only in China but in whole world, and thus putting Orkli market leadership at risk.

- Presence in the market and growing as it grows.

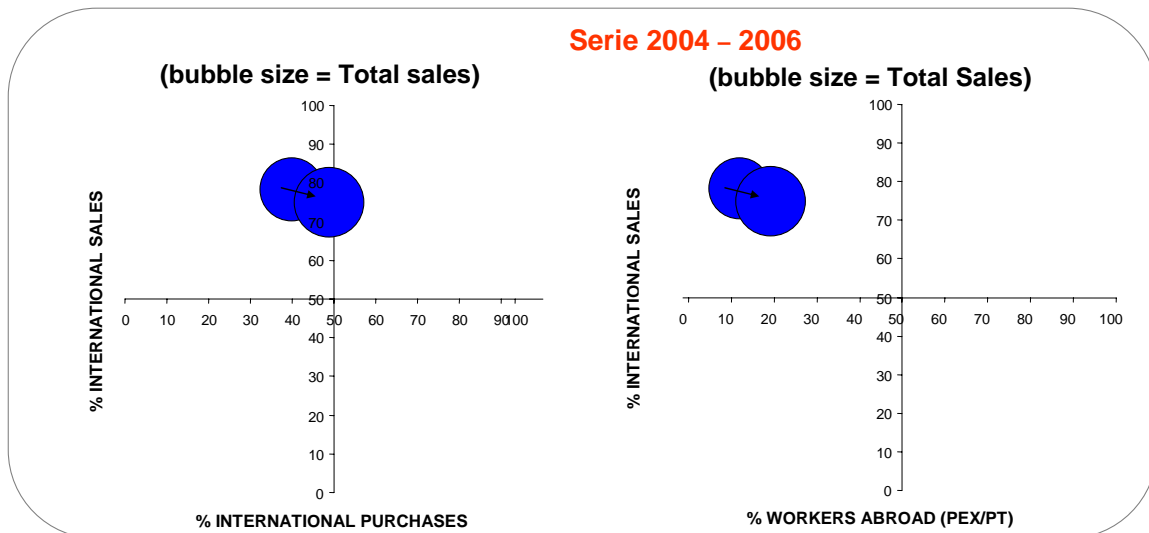
This situation was compounded by the fact that the principal Orkli international competitor, Japanese component producer Mikuni, had already established a production plant in China. In spite of the fact that the potential for short-term profits could not justify the presence in China, the preventative goals and the long-term market policy made it an interesting strategy. Yet behind this strategy there is a certain risk: to have two production centres with different production costs in a global market. To avoid this situation a common pricing policy has been developed at the international level in Orkli.

There is also a second motivation for opening a plant in China on the valve products line. Orkli needs to evolve its production into high-value added products in its plant of Ordizia and also to offer a catalogue of low-value added products, which cannot be profitably made in Europe. These products can, however, be profitably produced in China. At the end of 2006 the opening of these activities in China was still preliminary, but was also subject to a careful study.

In the case of their second plant abroad, opened in Brazil in 2006, the objective of Orkli was to supply the products not only to the Brazilian market but also to all Latin America, where legal changes in security regulations for gas cookers will require safety products; and this justifies the Orkli investment there.

#### 7.1.1.3 International activity 1999-2006

At the beginning of this period, international sales already represented an important part of Orkli total sales, and placed them firmly in the ranks of exporter companies. During the period 1999-2006 Orkli total and also international sales increased considerably, alongside the opening of its first production plant abroad.



**Figure 7.2:** The Orkli Group: international sales, purchases and employees (2004-06)

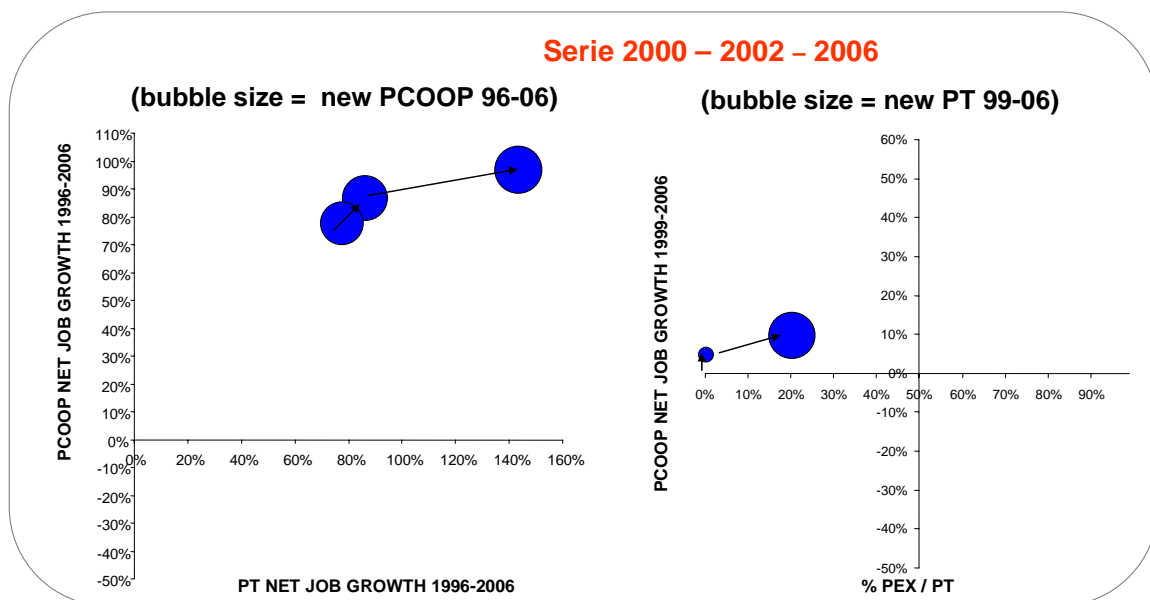
The Orkli international multi-localisation strategy during this period has allowed the company to achieve the following:

- To position itself as a leader in the gas cooker safety sector, incorporating into the international sales network a global production apparatus with factories in Europe, Asia and America.
- To optimise international purchasing processes through the Chinese plant, by approving suppliers for the plant and strengthening collaboration with the main plant in Ordizia.
- To acquire gradually experience in the creation of production plants outside Spain, without the urgency or pressure imposed by the market to multi-locate production as part of a reactive strategy.
- To monitor the market and potential competitors in China, while improving the product based on the local demands of the market.
- To integrate the management of the two production plants by applying similar internal organisational models, while maintaining production process that differ greatly among themselves. In the case of the parent co-operative this is highly automated, while in the Chinese subsidiary is intensively manual and more flexible and adaptable.

## 7.1.1.4 Social and economic goal

During the period from 1999-2006 Orkli personnel grew by 37%. After a period of growth in the workforce by 100% in the parent co-operative from 286 workers in 1996 to 533 workers at the end of 2000, a period of consolidation followed. Since then the growth has shifted to the subsidiaries where, since 2004, 135 new employees have been contracted

The proactive nature of external expansion is highlighted by anticipation of future economic needs and threats, and especially in the social dimension, which has been motivated by a desire to protect jobs in the parent co-operative (fig. 7.3).



**Figure 7.3:** The Orkli Group: parent co-operative vs. employment abroad (2000-06)

Total sales have continued to grow, while the important international share of sales has grown to 74% of the total (fig. 7.4). This reflects a period of intense investment with the goal of entering new markets, as well as with the expectation that increased competitiveness on a global scale would lead to greater profitability and stability.

	2000	2004	2006
<b>PT</b>	533	591	697
<b>PEX</b>	0	71	135
<b>% PEX / PT</b>	0.00%	12.01%	19.37%
<b>TOTAL SALES</b>	-	109,762	135,030
<b>% INTER SALES</b>	-	78.17%	74.75%

**Figure 7.4:** The Orkli Group: global employment and sales growth (2002-06)

## 7.1.2 Orkli CH subsidiary understanding

### 7.1.2.1 Background and current situation

Orkli has had a presence in China since 1998 in the form of a sales representative; at the end of 2001 it undertook the installation of its production plant that opened in June 2002. At the end of 2006, with a workforce of 105 employees and a new greenfield plant located in Kunshan Industrial Park, arrived at a 30% share of the local market and positioned itself along with the Chinese market for the future growth. At the present Orkli CH produces thermocouples and safety units exclusively for the local Chinese market, but continues studying the possibility of producing other lower value added products from its catalogue, that can be more profitably made in China than at the parent co-operative in Ordizia (fig. 7.5).

Orkli CH is one of the most successful examples of the Mondragon Group and other Spanish companies operating in China. This can be attributed to its chameleon ability to adapt to local conditions. Inside Orkli has adopted in China a management model based on European quality standards taken from the parent co-operative; but outside Orkli CH is capable of competing with Chinese companies and has strategically positioned itself in the Chinese market, thus limiting the capacity of the competitors for emerging.

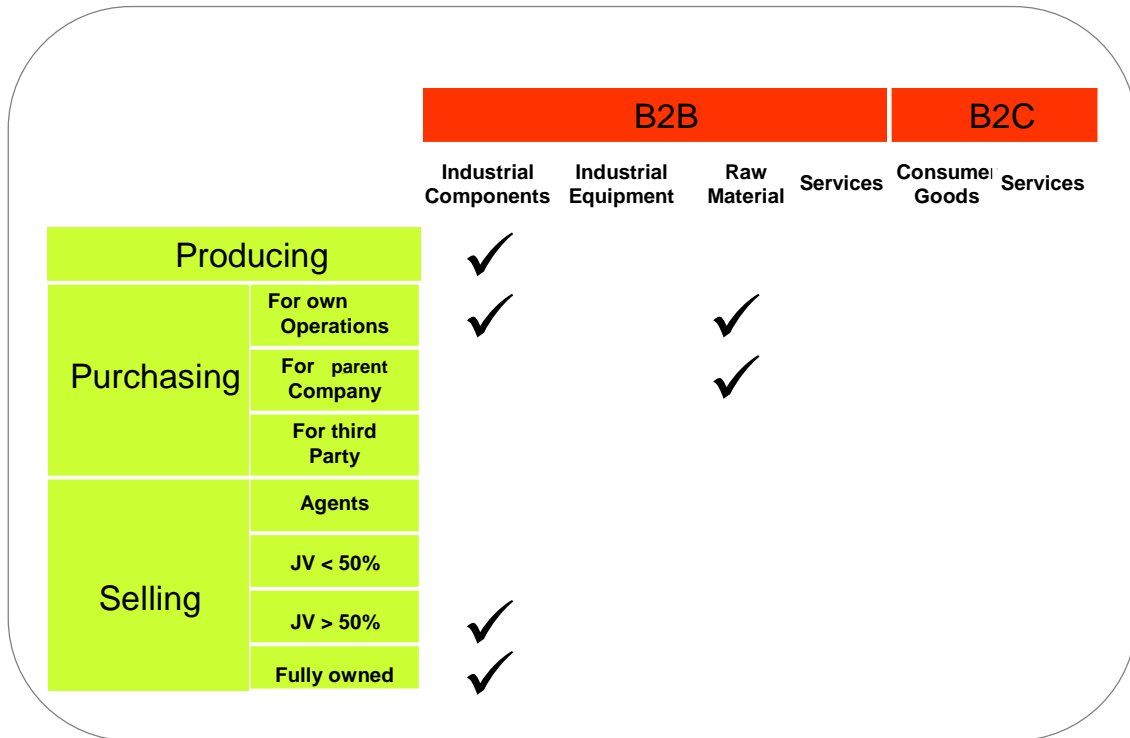


Figure 7.5: Orkli CH: production plant activity

7.1.2.2 History and motivation

The Orkli strategy for leadership in its sector has forced the firm to monitor the development of new and emerging markets. Hence, Orkli has identified China as one of the most important international markets in the future, and a breeding ground for possible competitors on a national and international level. The following important characteristics about the Chinese market are to be remarked:

- An immense population of 1.3bn inhabitants, where more than 200 millionaires live alongside 500 million people that live on less than a dollar a day.
- Gas cookers are the most common cooking appliance in China and their use has been growing exponentially in the last few years, while there has been also the growth of mini cooking appliances.
- The continued urban growth of the country, which expects to add millions of housing in the new developed residential areas. The massive growth of traditional urban areas (Shanghai with 22m inhabitants, Beijing with 18m and Hong Kong with 7m) and the emergence of new mega cities (Guangzhou 10m, Shenzhen 12m, Tianjin 10.5m and Qingdao 8m), surely will increase business significantly as regards the domestic appliance sector.

- As the large appliance producers (Electrolux, Whirlpool, GE, and Bosch-Siemens) expand production to new countries, they require their established suppliers to expand also along with them on a global scale.

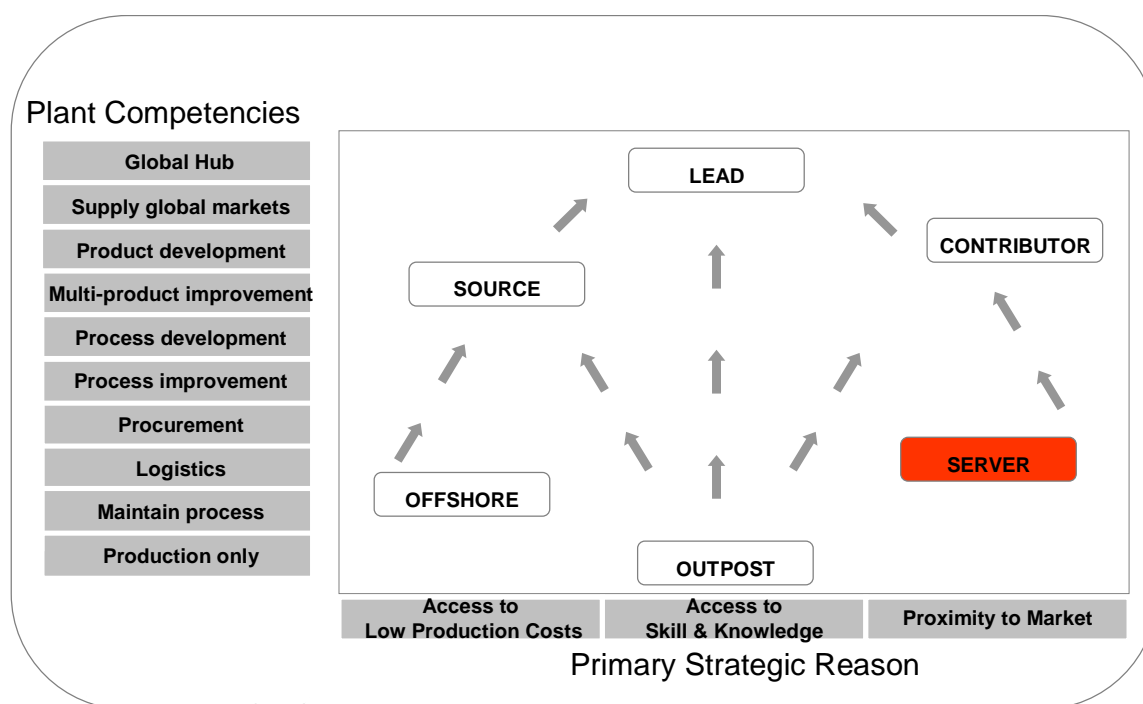
Orkli has a sales agent in China since 1995. In 1998, as a result of the growing market there, an employee from the parent co-operative was sent to work alongside the sales agent, as well as to analyse the market possibilities and the elements that would be decisive for establishing Orkli global business.

This analysis arrived to the following conclusions:

- The existence of a real opportunity in China, given the huge potentiality of its internal market. This market was ripe for entry, because there were signs of awakening and the initial phase of a development, while competitors had not yet appeared on the scene.
- The high possibility of new and aggressive Chinese competitors appearing with advantage of the local market to develop in the mid- and long-term similar products to those of Orkli, thus supplying China and eventually the international market, and threatening Orkli's dominant position.
- The Japanese company Mikuni, the main competition of Orkli international, established a production plant in China. This allowed Mikuni to position itself in the market, as well as to acquire a comparative advantage in international markets, due to its global production.

Consequently, at the end of 2001 was decided by Orkli that strategically it would be prudent to establish a production plant in China, even though the sales at that time could not guarantee the profitability of the plant. This proactive strategy sought to acquire market share in China and to prevent the emergence of new competitors that could base their strength on their master ship in the national market. Additionally, the strategy sought to neutralise the competitive advantage of Mikuni, by obtaining a greater market share in China (fig. 7.6).





**Figure 7.6:** Orkli CH: production plant original motivation

In June 2002, two thermocouple assembly lines were moved from the plant in Olomouc (Czech Republic) that Orkli shared with Copreci and MCC Investments, and were set up in a facility rented from the sales agent. From the start Orkli operated under the following assumptions:

- The only way to gain access to the Chinese market of appliance manufacturers would be to be able to compete with Chinese companies. For this reason, Orkli continued to sell through its sales agent, and at the same time knowledge of local market was obtained.
- The plant itself must work with management and production models with European standards; for this the manager comes from the parent co-operative, and the sales agent's responsibilities are strictly commercial.

This particular strategy included the assumption that profitability would not come immediately. Yet, as their analysis showed, the Chinese market would eventually take off and ensure future profitability. Nevertheless, a few important challenges remained.

- The Chinese market was extremely difficult to penetrate and the cultural idiosyncrasies related to sales practices made it nearly impossible to equal production costs of the local companies.

- Orkli demanded the highest quality, which forced it to be supplied from the parent co-operative while it gradually completed the process of certifying local suppliers. This would eventually allow it to be more cost competitive and flexible in production planning.
- The organisation of Taylorist-Fordist production processes, which in the past were important to the parent co-operative. Since this style of production is part of the Orkli culture, it was able to optimise easily production and lower costs. This, just as for most the multi-nationals in China, represented a key competitive advantage.

At the beginning of 2004, Orkli CH began assembly only a part of the safety product. In 2005 Orkli began to look to purchase outright a greenfield site for its plant. Due to its relationship with other co-operatives in the Mondragon Group, it decided to look for a site with other group companies. At the end of 2006 this process was finished, and the new Orkli plant in the Mondragon Group Industrial Park in Kunshan (China) was completed.

Five years after the creation of Orkli CH, and in spite of great difficulties, all the objectives set for Orkli expansion to China were implemented.

- The company was able to acquire an important share of the Chinese market, and to supply the new plants for the large multi-national producers.
- The European management model allowed for the achievement of higher levels of quality and productivity than even achieved in the parent co-operative when those techniques were used in the past.

In the process of establishing its production plant in China, several new opportunities for Orkli appeared, that would have been impossible if it had not been present in the country. They were the following:

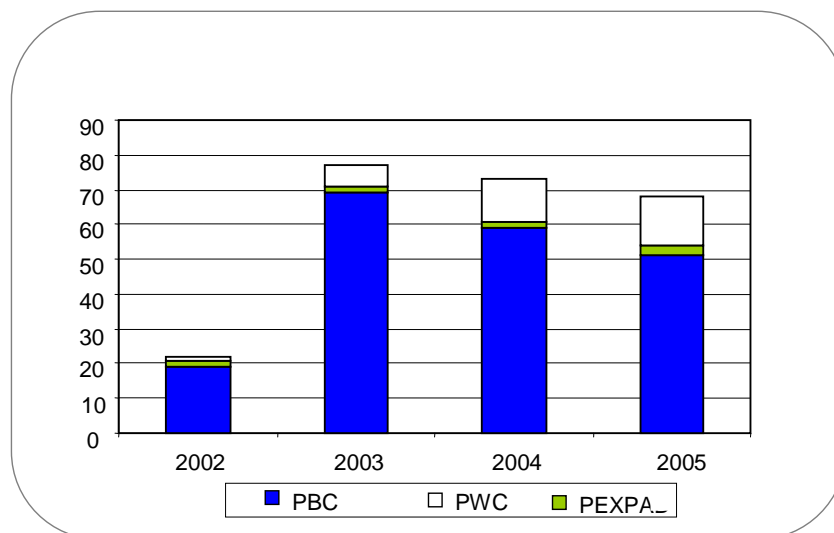
- Access to new customers in nearby countries (Korea and Japan) and others that could not have been served from the parent co-operative plant in Europe.
- A new source of innovation for the production process, combining the automation of the parent co-operative with the manual and flexible production of the subsidiary, and in the products themselves. In the words of the plant

manager: “When we came here we brought three types of products, that they told us would be sufficient for the Chinese market, today we have more than 30 products”. Some of them are made only by Orkli CH.

- The identification of new Chinese suppliers for the parent co-operative, which optimises purchasing on a global scale.
- The chance to begin production of some products from the Orkli catalogue in China that could no longer be profitably produced in the parent co-operative.

### 7.1.2.3 Employment analysis

The management of personnel is a key issue for any company in China, a process that is full of challenges and difficulties, hidden by the cheap cost of labour. Orkli CH, as stated above, has taken on a similar management model to that of the plant in Ordizia. This fact has resulted in limiting the hire of unnecessary personnel, in order to avoid the usual oversized workforce of companies in China, particularly those of Chinese local companies. At the end of 2006, Orkli CH had a workforce of 105 personas, of which 15 are white collar employees in addition to three expatriate employees from the parent co-operative.

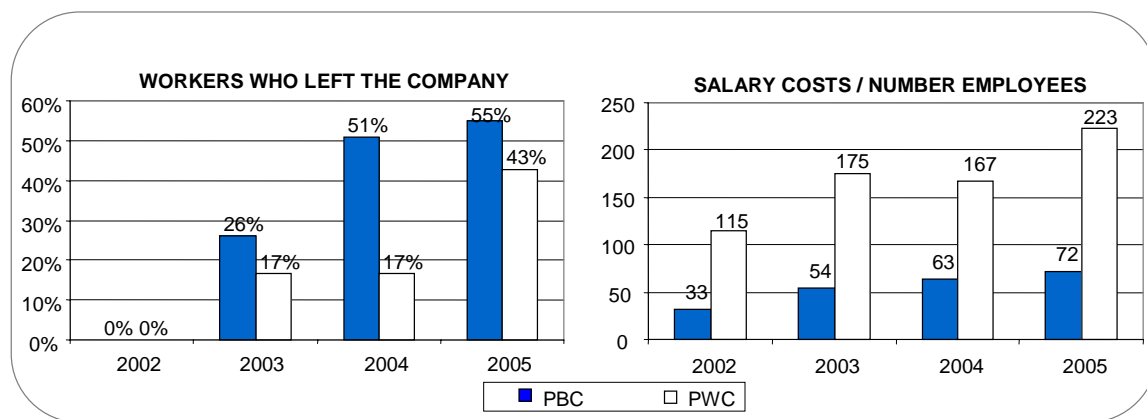


**Figure 7.7:** Orkli CH: employment growth (2002-2005)

In the last four years, the size of the workforce has been optimised to fit the various assembly lines, and has been divided into two groups, one for each product:

thermocouples and safety units that are made at the plant. The number of units increased; in the meantime an important growth in the productivity of the employees took place. In 2003 approximately 2,000 thermocouples in 60 different product references were produced and in 2005 more than 2,600 were made in 120 different types.

One of the largest challenges for Orkli CH is the stability of its workforce. Managing people in China is complex, and moreover the situation is complicated by the language barrier; as well as by the fact that there is a significant amount of itinerant migrants in search of better working conditions and wages, and also by the strong differences in culture and basic necessities, resulting in a situation where the staff turnover is a constant challenge (fig. 7.8).



**Figure 7.8:** Orkli CH: workforce turnover and wage policy (2002-2005)

Looking at Orkli experience in China helps also to explain the nature of the personnel management in China. Orkli CH maintains a human resource policy with the following characteristics:

- All employees must have a contract, which implies Orkli CH paying an additional 30% for social security benefits.
- The wage structure is slightly higher than the average for that industry and area; this is not based on research but simply on analogy with the wages paid by nearby factories.
- A cafeteria free of cost is provided for the employees, and this service is paid for by Orkli CH and is provided by a nearby company that has a dining hall.
- Orkli does not offer free or subsidised housing to employees; however, the new plant in Kunshan will offer housing to some white collar employees.

- Health and safety conditions in the plant are based on 5S standards. It is not unusual for visitors to the factory to comment in an ironic sense that whether Orkli CH is really a biotech lab or whether is making nuclear reactor components. The ever-present uniforms, gloves, signs and postings as well as the cleaning the three times a day are unusual practices for a factory in China.
- Whenever any accident happens, the company has assumed responsibility for all costs to be paid by the employees.

When comparing Orkli policy to that of a Taiwanese plant, that manufactures a comparable product and is in close proximity to Orkli CH, the following differences are to be remarked in a special manner:

- The Taiwanese does not have employees sign contracts and does not pay social security, saving 30% of the cost of each worker salary. This fact, in general, does not affect most workers since they come from other regions and the social security contributions are generally worthless to them, considering that probably they will spend little time in the region. In the case of both plants, the majority of workers are women, and if they become pregnant or marry they will likely return to their homes or to that of their partner.
- It does not follow a specific health or safety policy. In fact, some work in the outside and are sheltered from the rain only with a tarpaulin.
- In the event of an accident, the company generally pays the injured employee, discounting the amount from the regular salary. This results in a forced sense of loyalty to the company in the workers.
- The company provides crowded “barracks”, where employees sleep in cramped conditions, but at a very cheap cost which allows them to save 20% of their salary as compared to renting offsite.
- The wages paid are almost equal to those paid at Orkli, and sometimes it recruits even workers that have left Orkli CH.

The above conclusions show that Orkli labour costs are at least 30% more than those of the local competitors (in months where no overtime is required to the employees) and even 60% (when they have to work overtime). Yet the Orkli workers themselves only receive directly 20% higher wages. From these two examples is clear that the companies

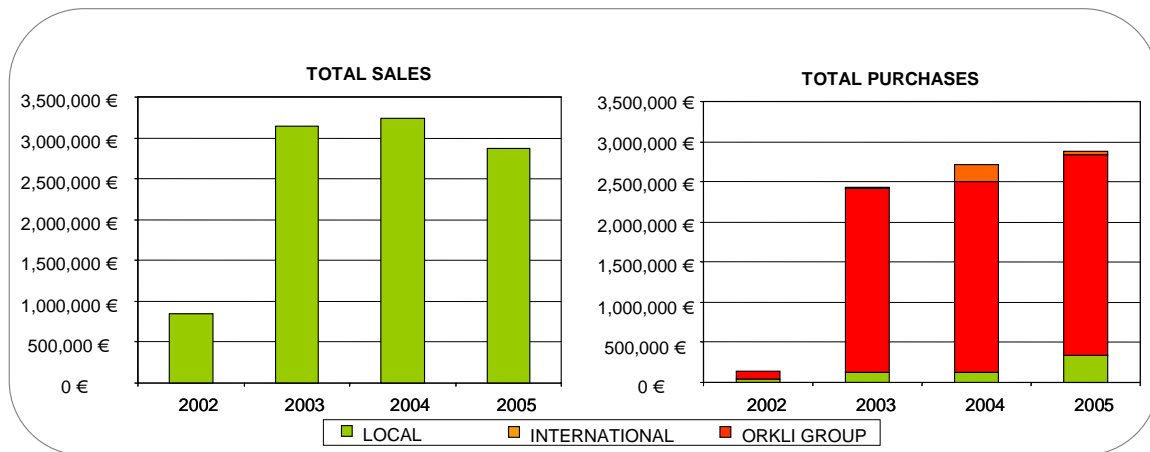
and workers are affected by labour market dynamics, and thus the retaining of a loyal workforce is difficult.

If the amount of money earned by one of the workers (€15) is barely enough to pay for a meal in Europe, is hard to imagine the effect this can have on his family economy. Usually, a blue collar worker in China earns 800CNY per month; 75% (600CNY) will be sent home where their parents, wife/husband and child live. Therefore, a standard blue collar lives with 200CNY (€20) a month. This might make us believe that the Chinese cost of living is extremely cheap, but it has to be mentioned that those expatriates living in China will spend monthly over 15,000 CNY (750 times more than their Chinese colleagues). It is not only that expatriate living standards are high, but also that Chinese communist government policy is based on radical wage differences between Chinese non-educated people and foreigners or Chinese working in strategic government posts, or as managers at MNEs. This strategy is based on bureaucracy that creates a huge disparity between foreigners and Chinese people, and among Chinese classes themselves. This is a great barrier for democracy management policies in the workplace.

And all this causes that even production plants, that follow European standards and have a special HR policy such as that of Orkli, try to maintain the salaries as low as legally possible, even if it may result on high workforce turnover (over 50%).

#### 7.1.2.4 Economic performance

The sales escalation that occurred after Orkli CH was established in China is remarkable (fig. 7.9). This fact proves the necessity of having a production plant in China in order to be able to sell in that market. It also shows the key strategic role that the Orkli CH sales representative played, once the firm was set up in the country. The importance of personal relations is huge; citing the words of the plant manager: “The customers tell you flatly, I know you are more expensive, but we’re friends and that’s why I buy from you”. He also makes the point that having the support of a local employee who had a close relationship with customers was fundamental to allowing them to get established in the Chinese market while the Chinese learned how to conduct sales themselves.



**Figure 7.9:** Orkli CH: sales and purchases (2002-2005)

Another point worth noting is the relationship between the parent co-operative and the Chinese subsidiary. Orkli CH started depending absolutely upon the parent co-operative in Ordizia for supplies and materials, which suffocated the profitability of the production plant abroad as well as prevented it from being flexible enough to serve the local market. As a result, Orkli CH has aggressively sought out local suppliers, increasing from 90% in 2002 to 75% in 2006 the supply costs out of total product costs (fig. 7.9). It is also important to point out that Orkli Group strategy in the production process in China is limited to the assembly of accessories while keeping the higher-value added work in the parent co-operative plant.

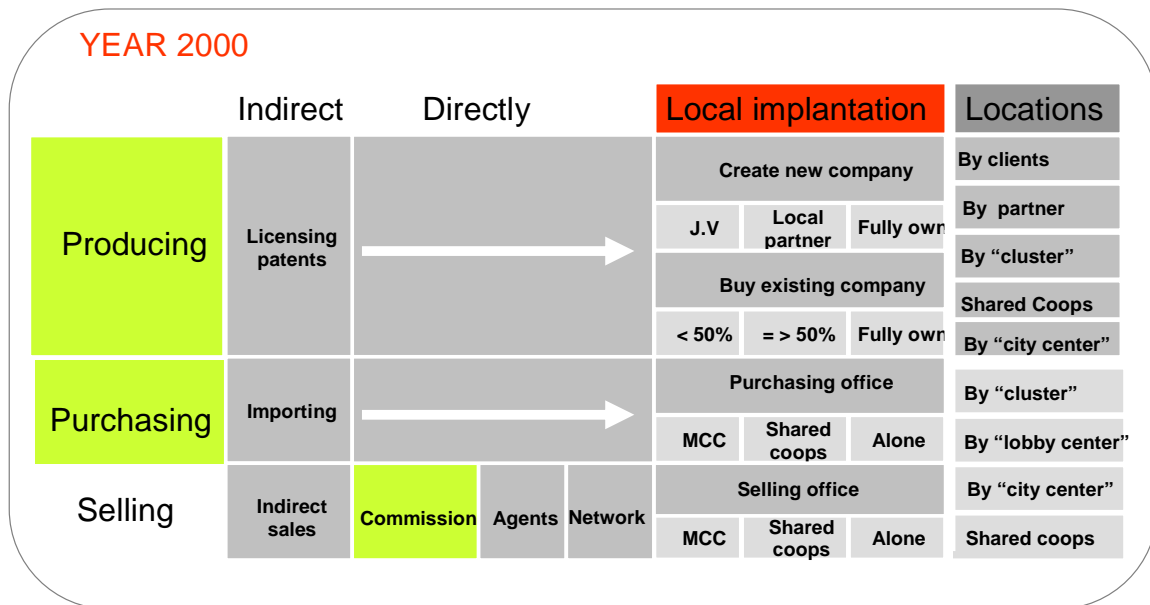
Normally in factories in China, as the case of Orkli CH makes clear, the objective is not to make a profit in the subsidiary; as a result, it is not unusual that inefficiencies in the supplying of these plants from the parent company go unnoticed on the balance sheets.

What is clear, to the point that this constitutes one of the main management problems in Orkli CH is the lack of flexibility in production planning, and the dependence on the parent co-operative for re-supplying. Sometimes it is even necessary to rely on air mail to ship components from the Basque Country for assembly in China, increasing the cost of the final product almost as much as the cost of labour needed.

#### 7.1.2.5 Implementation process

The process of establishing Orkli CH, in spite of having begun operating only in 2001, can be divided into several phases.

The first phase, from 1995 to 2001, is when Orkli had a presence in China by way of a commercial representative and was later reinforced by an employee from the parent co-operative in 1998 (fig. 7.10).

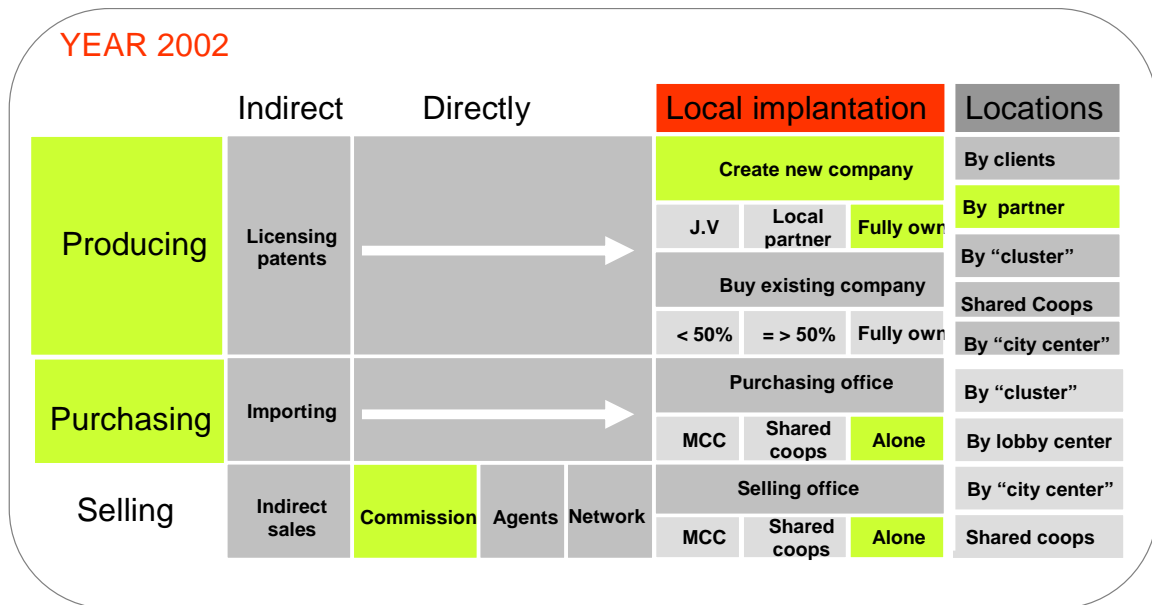


**Figure 7.10:** Orkli CH: subsidiary implementation process (2000)

The second phase began at the end of 2001 when Orkli CH was created as a subsidiary with 100% owned by Orkli S. Co-op. This new company rented a factory in the sales representative production plant where production of thermocouples began, as did sales to the Chinese market (fig. 7.11).

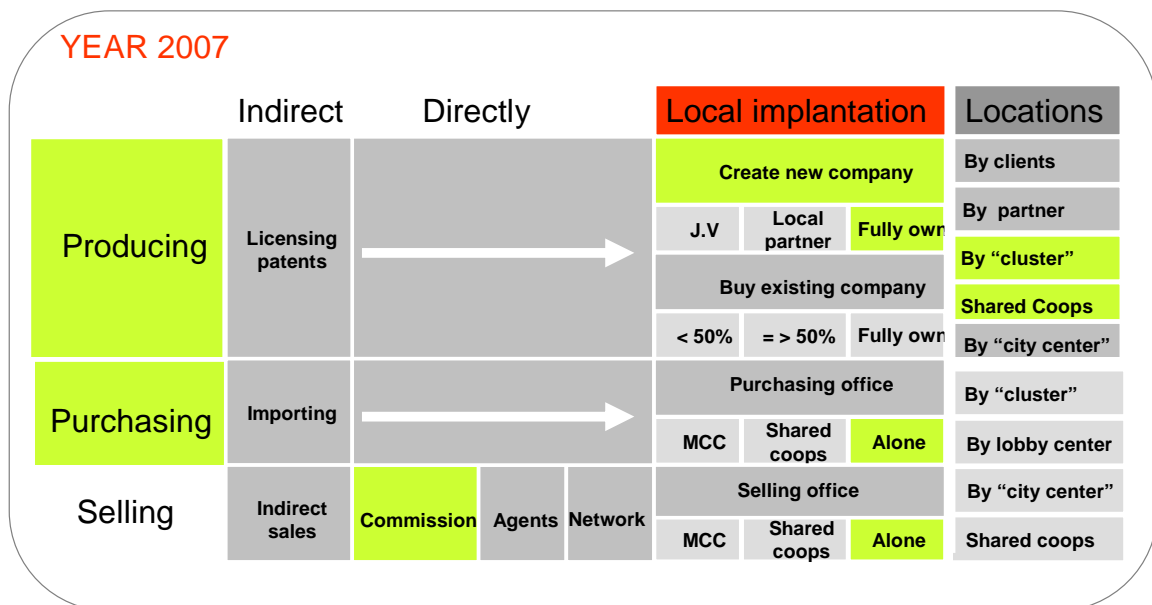
At this time the services of the sales agent were maintained, despite the fact that Orkli CH was established, in order to take advantage of the expertise of the agent and learn about the Chinese market while the sales base was consolidated. This arrangement continued during this period, while the partial production of safety units was also incorporated in the production process. At Orkli CH they also took advantage of their presence in China to study the practicality of producing low-valued added valves.





**Figure 7.11:** Orkli CH: subsidiary implementation process (2002)

At the end of 2006, a new phase in the Orkli China strategy began. The plant was transferred to the new Kunshan industrial park, along with several other co-operatives from Mondragon (for the moment, it is the only industrial park of Mondragon Group outside the Basque Country). With its investment in a new plant and the incorporation of a valve assembly line within its current production, Orkli laid the foundation for a long-term presence in China (fig. 7.12).



**Figure 7.12:** Orkli CH: subsidiary implementation process (2007)

The change of location by Orkli CH shows an important aspect in the company strategy for establishing itself in China. In spite of the fact that there are regions of the country that would have better suited needs, namely the south of the country in the Guangdong region, Orkli chose to locate near their sales agent. This was done in order to ensure a smoother and quicker transition that only its sales agent could facilitate. Its location in Kunshan has in fact been very advantageous, due to its proximity to Shanghai and the ability to share resources and create synergies with other co-operatives from the Mondragon Group.

This experience reveals that the usual logic of co-operatives that dictates an ever close proximity to customers is not always the most appropriate strategy, especially in China where, due its size, one will always be closer to some and farther from others no matter where they are located.

Orkli, however, is aware of the great importance of being near the commercial agent to learn how the market works, and of the importance of working with other Mondragon co-operatives' subsidiaries to shape image, to optimise relationship with suppliers, and to reach economies of scale that obtain key services more cheaply.

### **7.1.3 Orkli CH best practices analysis**

#### **7.1.3.1 Pro-active strategy**

The Orkli strategy in China has been characterised by an ability to anticipate threats, then transforming them into opportunities in the present. It has the advantage that is a world leader in the gas cooker safety components sector. This fact forces to constantly monitor the industrial sector on a worldwide scale to identify possible threats to dominance. At the same time, due to the size and sales, Orkli is able to make long-term investments and to absorb short-term losses that lead to long-term gains in competitiveness.

In this proactive strategy the following stand out:

- Presence in the country by way of a commercial representative in order to monitor market behaviour and emergence.

- Once their Japanese competitor set up a plant in China, Orkli sent one of its employees from the parent co-operative to work alongside the commercial representative and analyse the market, identifying threats and opportunities.
- Establishing a production plant in China with the long-term view of defending the parent co-operative and its position in the international market, even though the potential sales in the short- and mid-term could not justify presence there.
- Implementing a European management model and quality standards at the Chinese plant, instead of mimicking local practices.
- Making a large investment in the Kunshan plant based on the steady increase of the market, thinking about long-term growth. The new plant was designed for 350 employees, while at the end of 2006 there were 150 in the Orkli CH workforce.

The following conclusions can be made for this proactive strategy:

- It represents a smaller investment in the long-term, avoiding the higher cost of a late entrance into the Chinese market.
- Its gradual implementation has helped avoid drastic changes that might have undermined the culture of the co-operative. Instead, the strong culture of the parent co-operative has gradually been transplanted to the subsidiary.
- It has increased the chances of success: the co-operative has been able to weight up the impact of its actions and measure outcomes knowing that consequences would not be that great during the learning curve.

#### 7.1.3.2 Assuming parent company management and quality standards

The decision to use European quality standards and management model had to be reconciled with the reality of local practices in China. Some of these are:

- The maintenance of an important amount of finish products in stock at all times. For Chinese companies the key to respond efficiently to customers is having a large volume of finished goods awaiting orders. Furthermore, customers are not used to sharing their production plans or integrating their processes with suppliers.

- Despite the problems of swimming against the tide, Orkli CH is not willing to have an amount of money tied up in the warehouse or in taking a step back in terms of management. Instead, it believes that Chinese companies will have to update their processes in order to be more efficient.
- Massive overstaffing: traditionally Chinese companies, especially those in sectors the government considers to be strategic, are considered successful based on the number of people in their workforce. This fact, combined with the cheap cost of labour means that companies tend to be oversized and that measures of productivity per worker are meaningless.

This practice is opposed to the European model, where workers are paid at least 100 times more than the workers in China. Yet, the relative cheapness of labour should not be a reason to not take advantage of the improved efficiency of the European system of skills and resource management. In China the types of positions are different from those at the parent co-operative; the real competitive advantage is in manual work versus automated work. Orkli CH deals with this situation with intensive manual tasks, but organised in the following way: each employee has a workstation, activity and responsibilities assigned coherent with European total quality standards.

- Chinese factories themselves tend to be informal places: processes, organisation and cleaning all tend to be less organised and controlled. Culturally speaking, the Chinese are accustomed to a high degree of organisation and order at work, as a result of the vast number of people generally employed in factories and the hierarchal nature of authority<sup>139</sup>. But in terms of the organisation of production there is a total lack of order, cleanliness and organisation according to processes or visual inspection of the plant. Once the plant was established, Orkli CH implemented the models of management and organisation that were historically successful at the parent co-operative. The plant is cleaned three times a day; is separated into divisions that are clearly visible and monitored constantly from the loading docks to packaging of the final product. However, an interesting anecdote that illustrates the difficulty of imposing their system in China was told by one of the expatriate workers that confessed that: “We reached a point where

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<sup>139</sup> This fact is made clear on a daily basis in China, where at railway stations all passengers are obliged to form a line. In addition, organised athletic activities in school are the norm, and regular training of restaurant staff is not unusual.

we could not get the plant any more clean, and we realised that it was simply because the factory was cleaner than most of the houses of our employees, which makes it difficult to convince a worker that the plant needs to be cleaner and that they need to keep cleaning”.

The Orkli CH production process is linear in nature, which is a radical departure from the Chinese conception, which sees the product circulate back and forth on the production line.

- A nonexistent commitment to employee education: the Chinese business model does not call for investing in worker education. This practice contributes to a high rate of staff turnover, low quality standards and low wages. As there is not an essential difference between a worker in a factory and the unskilled migrants that come for rural areas hoping for work, there is no need to pay any workers more, which consequently makes it hard to maintain a stable workforce in the long run.

In Orkli CH all new employees take part in a basic training process, as do workers that are promoted to team leader or complex positions such as in quality management or the warehouse. A co-operative member from the parent co-operative has conducted the training programme since the beginning and is responsible for both organising production and training for the whole plant.

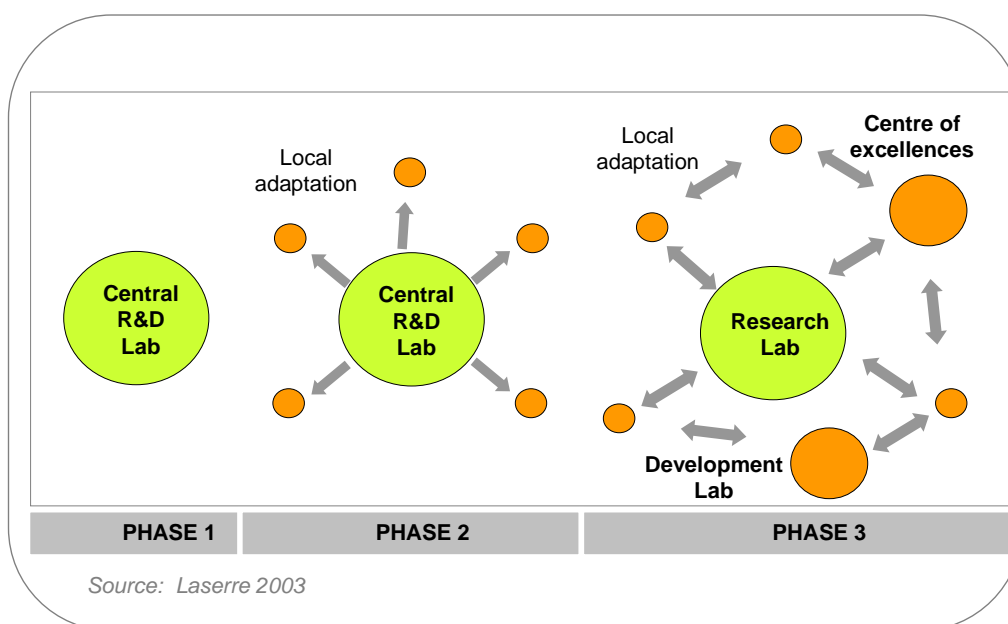
- Lack of certification system for suppliers: generally, Chinese companies buy from local companies that have available stock, if there is more than one supplier they buy from the cheapest. The relative adequacy or inadequacy of suppliers does not become apparent until later, and as agreements about quality or traceability don't exist, it is difficult to recognise where problems originate. Orkli CH conducts its own supplier certification process, with the hopes of finding a sufficient number of suppliers for each product in order to make up for the fact that the concept of integrating suppliers in the customers production planning does not exist.

The nature of the Orkli CH organisational model differs from the dominant Chinese one causing many problems. But will continue to be a challenge in the future for Orkli in order to get all of its stakeholders (suppliers, workers, customers) making a greater

effort to adopt European production standards and not allowing their quality standards to be diluted by local practices.

### 7.1.3.3 Production quality standards achieved and innovation

Despite what theory (Laserre 2003, p.267) tells us about production in emerging countries, the quality standards, and the need of a global innovation process (fig. 7.13) it is hard to find real examples at factory level. Therefore, the opinion that it is at the parent co-operative where the greatest amount of added value and innovation exists (which is then distributed to the subsidiaries) is common.



**Figure 7.13:** Evolution over time of global R&D activities (Laserre 2003)

The Orkli CH experience provides a real example of how production in China, with all of the peculiarities examined above, can be an important source of process innovation and improvement in quality standards.

In mid-2004 one of the largest Japanese domestic appliance manufacturers visited the Orkli China plant. A few months later the potential customer, who had never previously worked with Orkli, visited the parent co-operative. The visit, which was part of the certification and quality verification process at the parent co-operative, did not meet customer quality standards. The explanation stated that zero defect standards were required; it is argued that it has internal processes that avoided 100% the possibility of

faulty products, and that the automated process of the company results in some minimal quality defects. As it was unfeasible to change the parent co-operative automated process for a customer requirement, the customer proposed the possibility of introducing changes in the more flexible Chinese production plant.

A new site visit was conducted in China and the Japanese customer laid out the quality standards that he required from the plant. Orkli CH then offered to set up an assembly line exclusively for the Japanese customer. This idea was accepted by the customer and a date was schedule to inspect the new assembly line.

The Orkli CH management, with the help of the parent co-operative, reorganised the assembly line based on the customer concept of zero defects. Philosophically it was a radical change that required:

- The development and incorporation of new machines that prevented the possibility of human error affecting the final product. Once these machines were designed with additional help from the parent co-operative, another co-operative from the Mondragon Group built the new machines.
- The inclusion of 10–12 new components in the product, some from the parent co-operative, some from the Japanese company and some from other Chinese companies.
- The creation of a system of total traceability that allowed them to track the day a piece was made, in what section and by which worker.

The set up of the assembly line was done hurriedly and with a huge effort on the part of the Basque and Chinese workers at Orkli CH in order to meet the agreed upon date. Finally, the Japanese customer inspectors arrived and spent three days analysing every detail of the productive process. Before leaving they asked that the assembly line produce 100 thermocouples to be taken back to Japan for analysis. However, in spite of all the effort by the Orkli CH team, the plant manager stopped the process after 80 pieces were produced upon realising that errors incompatible with the zero defect philosophy were occurring.

Assuming that they had failed the inspection, Orkli proposed visiting the customer plant in order to gain a better sense of how the new improvements could be incorporated. Two European employees from Orkli Ordizia and part of the Orkli CH team travelled to Japan. There, they were surprised at the total compliance with the zero defects philosophy, and identified several key practices for improvement, including: documentation of everything that occurred, total cleanliness, the training of workers and the use of multiple sensors to avoid errors. These improvements were incorporated into their processes, working with the unconditional support of the parent co-operative to prepare for the second inspection.

When the second inspection arrived, the whole process was reanalysed and 100 sample thermocouples were taken back to Japan to be tested. One month later, much to the delight of the Orkli CH team, the first order from Japan arrived. Orkli was able to acquire a new customer after obtaining quality standards in China that would have been impossible to achieve in the parent co-operative. In addition, Orkli underwent a radical learning process, the results of which would be incorporated in the entire Chinese plant, in the parent co-operative and in other subsidiaries like Orkli Brazil.

#### 7.1.3.4 Purchasing and Supplier Management

As a result of price limitations and the slow and rigid response of a supply chain dependent on shipments from the parent co-operative, Orkli CH has had to seek out local suppliers. For 2006 the Chinese plant objectives were:

- To have three qualified Chinese suppliers for each specific product they purchased.
- For each product supplied from the parent co-operative to have a least one Chinese supplier capable of providing the same product.

To achieve these goals the plant designed the following process to certify the Chinese suppliers.

- 1) An active supplier search: One person was assigned fulltime as a sourcing manager. In the new plant in Kunshan they are considering having two or even three such positions.



- 2) Quality certification: Once they identified a particular part it is tested at Orkli CH, they state that they: “Only approved those that offer us components at least as good as what we get from the parent co-operative (whether it is purchased or produced there).”
- 3) The supplier was approved.
- 4) The first order with the new supplier was made.

These goals and actions, according to the subsidiary internal reports, have allowed Orkli CH to obtain the following:

- The cost of raw materials has gone from 80% of the final cost of the product to only 60%. The inputs purchased in China are approximately 7% of the price of the same products purchased in Europe.
- The flexibility of having local suppliers allows a personalisation of service to customers that would otherwise not have been possible. Orkli is now able to meet the distinct needs of various customers, supplying some orders that would have been lost due to the inability for a quick response.
- The cost savings that came as a result of certifying suppliers are transferred to the parent co-operative. Until now, the savings have not been of great relevance.

#### 7.1.3.5 Strategic relationship with local sales representative agent

As noted above, one of the keys to the successful establishment of Orkli CH has been the commercial support of its Taiwanese sales agent. This relationship began in the early 90s and has been maintained subsequently, even now as the new plant is active, on a commission basis. The sales agent is not a business partner, but rather a sole sales agent. The sales agent has its own factory where it produces components for the same sector as Orkli; in fact the two companies even share some of the same customers. However, because they manufacture different products, they do not directly compete. This fact allows the Taiwanese partner to optimise sales as Orkli products represent a complementary line that can be offered to customers to complete their catalogue.

Orkli CH is very much aware of the importance of having a local connection for the Chinese market and that it is indispensable for their managers to have a Chinese reliable

contact, one that opens doors as they learn the ropes of the market and establish relationship with local customers. Without this assistance it would have been impossible for Orkli CH to obtain the 30% Chinese market share that it has today.

#### **7.1.4 Overall conclusions and lessons learned**

Looking at the Orkli CH experience in China provides a chance to understand some of the key factors for successfully setting up a business in China. Without doubt, the most important factor is recognising the potential of the Chinese market in the future and, as a result, the necessity for any industrial company interested in having an international presence that includes China in business strategy.

This case study illustrates how gaining access to the Chinese market is a process that is especially difficult for international companies. At the same time, however, a multinational company has advantages in terms of economic and social management as a result of being in China (for instance in stock, quality control, training, productive process and as a source of innovation). Even more, there are synergies between the local dimension of the subsidiary and the global dimension of the MNE.

In Orkli CH the following items on their social commitment could be pointed out: employees working conditions; employees' training programs inside and outside the production plant, both in China and at the parent co-operative; the implementation of European management standards taken from the parent co-operative; and the existence of an international professional career program.

The importance of arriving at a market at the right moment is also a key point; the foresight and strategic vision in creating Orkli CH shows how it is possible to transform future threats in to opportunities of the present. Certainly there are aspects of Orkli CH business that could be improved, such as in the area of long-term workforce stability and employees' participation in management and ownership and profit sharing. This process should, however, continue in a gradual manner.

## 7.2 CASE STUDY 2: IRIZAR-TVS (INDIA)

### 7.2.1 The Irizar Group

#### 7.2.1.1 Introduction

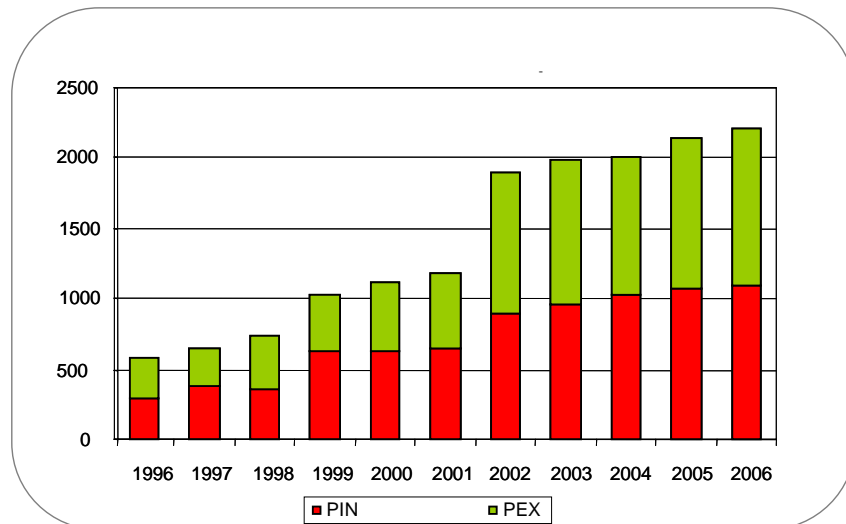
Founded in 1889 as *Carrocerías Irizar Hermanos*, Irizar is the oldest company in the Mondragon Group and is dedicated to the production of coach body works. In 1963 it was transformed into a co-operative (Irizar S.Coop) to prevent the departure of part of its workforce and to provide financial stability.

In 1991 during a period of tremendous crisis and after a very difficult decade without turning a profit, it was transformed into a project based on people under the leadership of Koldo Saratxaga<sup>140</sup>. Such project meant to transform the company into a project whose success is based on the freedom and responsibility of the individuals, all of whom were organised into self-managed work teams. This change to a model based on a revolutionary level of participation was accompanied by unprecedented profitability.

At the end of 2006 the Irizar Group had 2,214 employees; at the parent co-operative in Ormaiztegi, (Gipuzkoa-Spain) 724, and from these 603 were co-operative members. At the manufacturing plants abroad 1,068 were working in China, Morocco, Mexico, Brazil, India and South Africa. Besides, the Irizar Group has 422 employees in Seville and Barcelona in Spain.

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<sup>140</sup> The following books are focused on this topic: *Sinfonia o jazz? Koldo Saratxaga y el modelo Irizar, un modelo basado en las personas* (L. UGARTE, 2004) and *Un nuevo estilo de relaciones: para el cambio organizacional pendiente* (K. SARATXAGA, 2007).



**Figure 7.14:** The Irizar Group: global employment (1996-2006)

Since 1996 Irizar sales increased 600%, and added six new production plants outside Spain, while its workforce has grown 336% worldwide. It has received a multitude of awards and official accolades in recognition of its entrepreneurial excellence, including the EFQM award for large companies and a designation by *The Economist* publication as the most efficient company in its sector in the world.

#### 7.2.1.2 The reasons behind international multi-localisation

Internationalisation is no doubt one of the fundamental pillars of Irizar success in the last decade. The production of coaches, unlike the automated and uniform production of automobiles, is manual and highly customised. Although a great deal of the assembly process is the same for most coaches, every coach is unique. This fact has led to the existence of many SMEs that produce luxury coaches all over the world. In fact, in India alone there are 3,000 potential competitors of Irizar. This dynamic also leads to a situation in which investment in product design and innovation is limited by the small scale of companies, which historically have made small investments in products that have a very long lifecycles (LCP).

In 1991 Irizar, thanks to a large investment and great effort, introduced the *Century* model; and although it was a new and innovative product, it was mostly supported by local sales in the Spanish market. These sales volumes could not provide sufficient market to justify its production, and losses were the outcome. If Irizar wanted to survive

in the short-term and to position itself strategically on products and services for a market that was developing on an international level, it had to go beyond Spain. In response to this challenge a new motto was coined to represent the new strategy, “products no, markets yes”. This new strategy radically changed the company, and produced profits in few months time.

At the end of 1994 Irizar had doubled its sales since 1991 and was now a highly profitable company. Its internationalisation strategy based on increasing exports had already shown the wisdom of its investment and the competence of its leadership, but nevertheless it was limited by:

- Its sales structure: Irizar only makes the coach body of the coach. The chassis is purchased from a chassis manufacturer. In each country the coach market differs. For example, in Spain customers buy the chassis and then have the body made separately. In other countries, specifically in China and in India, an agreement with a local chassis manufacturer is required for the coach body producer and then the whole coach is sold directly to the customer.
- The product nature: the costs of transporting a coach internationally, and the need of using chassis locally certified.
- The quality of customer service: in the automotive sector, customer service includes repairs and replacement of parts, and this is very important for the customer’s satisfaction. This service, once established in a particular market, is a significant source of income, due to the large margin that can be earned on repairs.

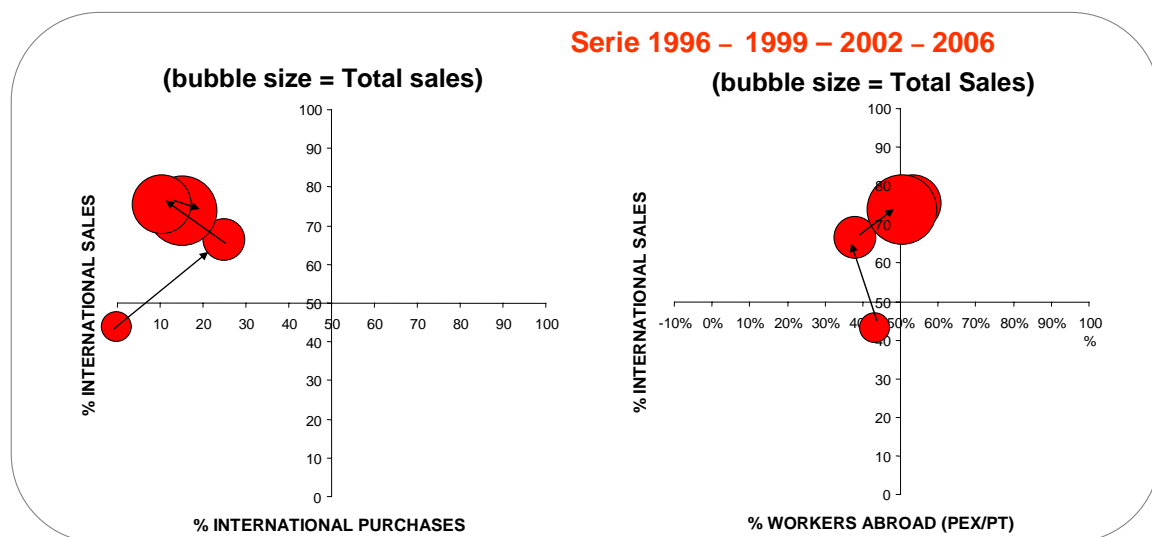
These circumstances are those that have challenged Irizar to open production plants outside Spain, in order to be able to take advantage of the large markets that were developing worldwide. Their new international multi-localisation strategy developed in the following order: first China 1994, and then Mexico 1996, Brazil 1997, Morocco 1999, India 2001 and South Africa 2004.

Last but not least, it is worth mentioning the cases of Hispacold (which produces air conditioning systems) and Masats (which makes hydraulic systems for doors), because both were acquired by Irizar during the period 1996-2006. These companies do not

represent a horizontal integration on an international basis, but rather (as they are a key issue to the sector, and are complementary to Irizar business) play an important role in the incorporation of strategic elements of the luxury coach production process within the company; they are elements of a vertical integration.

Throughout this process of Irizar expansion - internationally and in Spain - the key elements presented above have been characterised by an emphasis on the social dimension of the subsidiaries. Some examples of this are:

- The transfer of the organisational model, its focus on employees' participation in management and profit sharing, and the exchange of expertise from the parent co-operative to the subsidiaries: this has been done thanks to a specific technology transfer policy, which places emphasis on sending employees between plants and on working jointly.
- In the case of the plant in Morocco, the opportunity to create a joint venture has happened because a fortuitous meeting took place between the President of Irizar and the owner of a Moroccan coach company near to closing and consequently making redundant the entire workforce. He was in desperate need of an outside investor with access to better technology.



**Figure 7.15:** The Irizar Group: international sales, purchases and employees (1996-06)

Now we present the principal outcomes of the Irizar international multi-localisation strategy during the period 1996-2006:

- Total sales went from €60m in 1996 to €362m at the end of 2006. At the same time international sales went from representing the 40% of the total sales in 1994 to the 74% in 2006 (fig.7.15).
- One thousand new jobs were created outside Spain by way of joint ventures which, with the exception of the plant in India, all plants later became 100% property of Irizar. In some cases, jobs that would have been eliminated were saved, due to the intervention of Irizar (Morocco and Brazil), and others were created after the Irizar arrival.
- The production plants abroad have great autonomy and are organised in a “transnational” or “metanational”<sup>141</sup> organisation system, thanks to a flexible coordination that emphasises fluid and constant communication inside the production plants and between plants. But each subsidiary sets its own goals and makes its own decisions.
- As a result of a policy of technology transfer, the Irizar organisational model has been set up in all the plants. The key for this model is participation in management and profit sharing. The responsibility for the day-to-day operations in the plant falls on the head of the self-managed work teams.
- Each plant creates its own goals. In 2006 the goals were already achieved: the production of the *Irizar PB* model in the Mexico plant, the building of new plants in India, Irizar’s return to the urban coach market with the introduction of the *Irizar i4* model, the investment of €12m for development and remodelling of the Brazil plant.

### 7.2.1.3 Social and economic goals

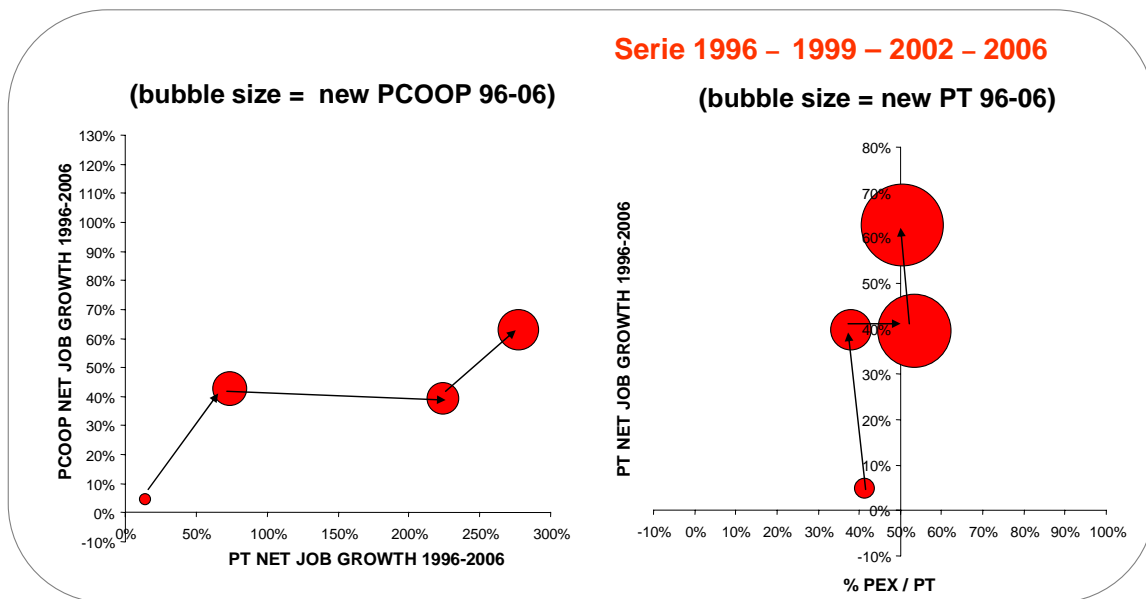
During the period of 1996-2006 the following social elements of the Irizar development can be noted:

- Growth by 277% in total employment, and 63% in the parent co-operative (fig.7.16). This shows the balanced nature of their strategy, which assured the stable relationship between home and foreign employment in the Irizar Group.

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<sup>141</sup> Both concepts were coined in previous literature: Transnational company (C.A. BARLETT & S. GHOSHAL, 1989) and Metanational company (Y.L. DOZ, J. SANTOS and P. WILLIAMSON, 2001); for further detail see section 3.4.7.

- The organisational model of the parent co-operative and of the subsidiaries is based on the participation of free and responsible individuals in self-managed work teams. To this belong companies without legal co-operative status, operating effectively with co-operative-like designs: employees' participation in management and redistribution of profits, general assemblies, equal social benefits, and a commitment to the local community.
- The constant and gradual growth of the personnel in the group assures the performance of the culture and organisational model with no threat for its uniqueness. Radical spurts of growth would make difficult the integration of new employees into the culture of the company.
- To each production plant has been granted autonomy within a transnational or metanational structure, allowing for the integration of different interests and for a decentralised decision-making in each plant as well as in the Irizar Group as a whole. The global structure permits growth and as the subsidiaries grow so does also the entire group, and vice versa.



**Figure 7.16:** The Irizar Group: parent co-operative vs. employment abroad (1996-06)

From an economic point of view, sales increased 500% since 1996 thanks to a steady and yet gradual increase in international sales, both in the parent co-operative and in the subsidiaries (fig. 7.17)



	1996	1999	2002	2006
<b>PT</b>	657	1,019	1,903	2,214
<b>PEX</b>	280	387	1,018	1,117
<b>% PEX / PT</b>	42.62%	37.98%	53.49%	50.45%
<b>TOTAL SALES</b>	69,838	136,664	256,705	362,688
<b>% INTER SALES</b>	44.41%	66.43%	75.46%	73.66%

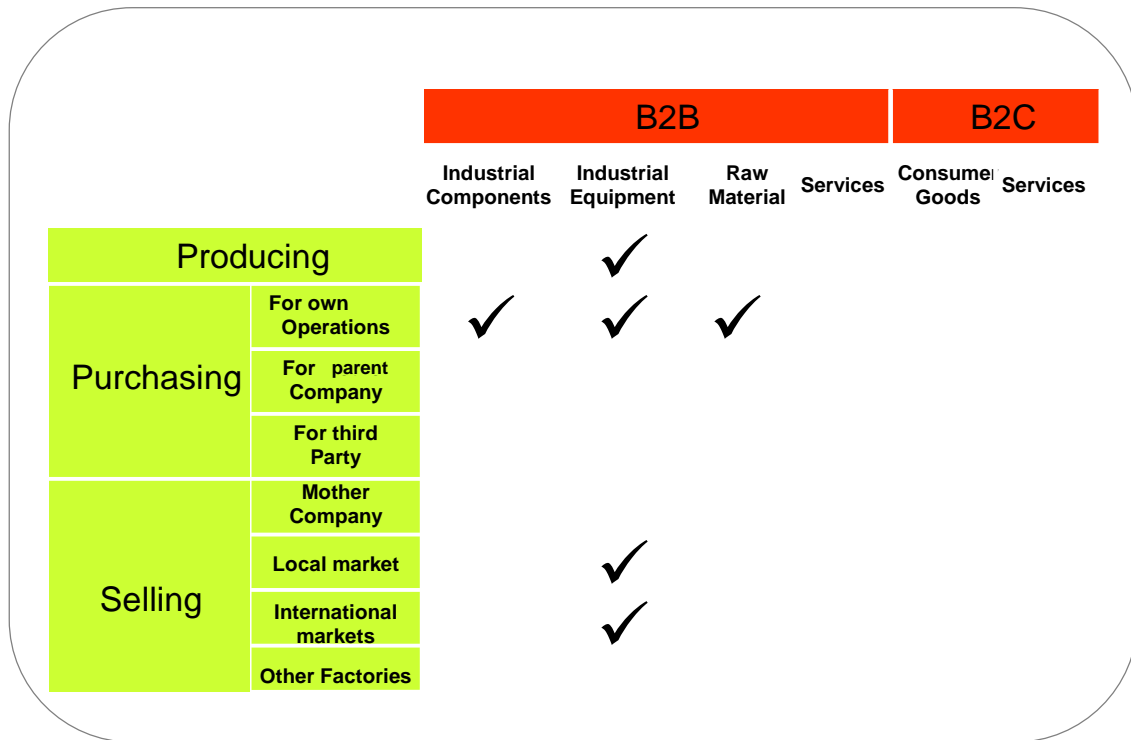
**Figure 7.17:** The Irizar Group: global employment and sales growth (1996-06)

## 7.2.2 Irizar-TVS subsidiary understanding

### 7.2.2.1 Background and current situation

In January 2001, Irizar group set up a plant in India, creating Irizar-TVS, a joint venture between the Irizar Group and the Indian companies TVS and Ashok Leyland. At the end of 2006 there were more than 743 workers in its two factories in Pudokotai and Virulimalai near the city of Trichy in the Tamil Nadu region. Irizar-TVS produces luxury and semi-luxury coaches for the Indian market and for export to Saudi Arabia, selling in 2006 alone more than 700 coaches.

Currently, Irizar-TVS is not just positioned in the luxury markets after selling its first *Intercentury* model in 2006, but it is also entering the market for urban coaches. They have built two new production plants: one in Virulimalai in its current plant location in order to expand capacity, and another new one near New Delhi in the North in order to improve logistics for existing models and for the forthcoming production of urban coaches.



**Figure 7.18:** Irizar-TVS: production plant activity

#### 7.2.2.2 History and motivation

The strategy of Irizar for positioning in the international market considers India as a place of great opportunity:

- India has a population of 1.1bn inhabitants and by 2050 is expected to be the largest country in the world.
- Even though since the colonial period India has always had a well developed train system, increasingly the growth of highway traffic and of its infrastructure makes automotive and coach transportation a key element.
- India has an outdated highway system, inappropriate for a country that tends to become a world economic power. There is a policy of constant development and maintenance of highways, although it still falls short of what is needed to keep pace with country growth.
- India is one of the most important tourist destinations in the world.

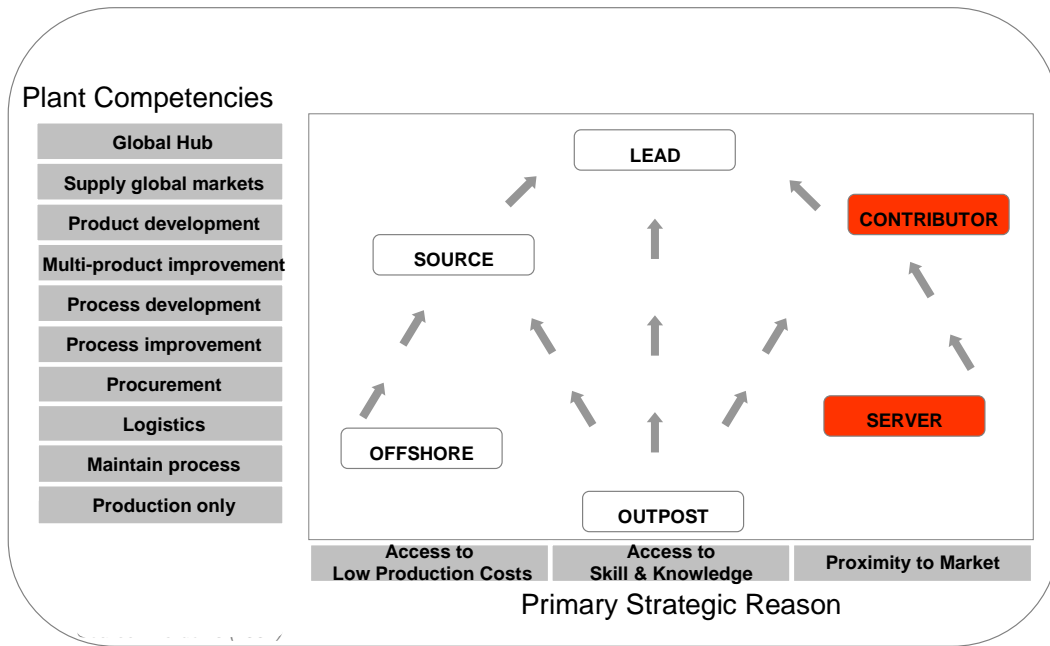
At the end of 1999 personnel from Irizar had already visited the country several times, and were aware of potential opportunities that could appear in the future. As has been already noted, one of the unique traits of the luxury coaches business is that either the

whole coach is sold directly to the customer, as happens in China or in India, or customers must purchase the chassis separately from the coach body as is the case in Spain. This forced Irizar to form a relationship with a chassis manufacturer. Additionally, another key factor in this sector is the customer technical service network; given the vastness of the Indian highway system, this fact is a fundamental.

Following Irizar's policy not to make "fix strategic plans" but rather "flexible strategic leading thoughts", the company awaited for an opportunity to enter the Indian market. During a trade show in 2000, Irizar met representatives from chassis producer Ashok Leyland and TVS, one of the most important motorcycle manufacturers in India that had a large technical service network throughout the country. Both companies had three factories in the south of India in the Tamil Nadu region, where they produced coaches for the Indian market and for export to Saudi Arabia. They needed not only technology, but also design capability in addition to a solution to the predicament that their factories were not profitable.

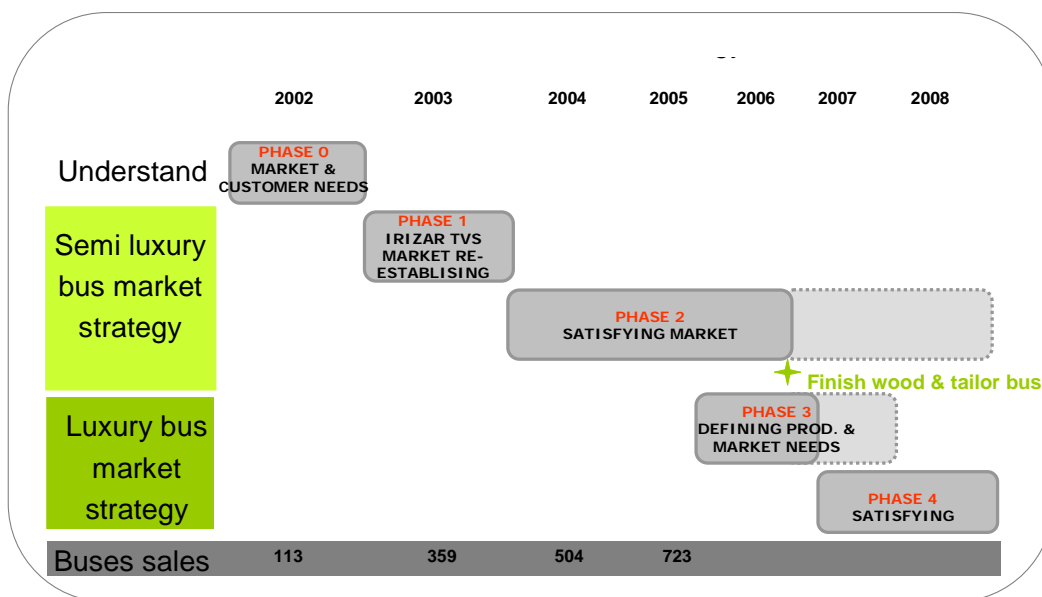
In 2000 a collaboration agreement was made to begin investigating the situation in the plants in India and the possibility of moving ahead on the creation of a joint venture by the three companies. Two people from Irizar Ormaiztegui went to India for five months as part of this agreement.

As a direct result of this analysis in 2001 Irizar-TVS was created, a joint venture owned in equal parts by Irizar, TVS and Ashok Leyland was created (fig. 7.18). At the request of TVS, Irizar would manage the production plant, having to move one person from the parent co-operative to the plant in India in order to work directly with the local management team. With this agreement Irizar positioned itself strategically not just in the Indian market, but also having the capacity to serve the Middle East and Southeast Asia (fig. 7.19).



**Figure 7.19:** Irizar-TVS: production plant original motivation

The Irizar Group took on the task of reengineering the internal processes of the plant in Virulimalai and the incorporation of new semi-luxury and luxury coaches into the production process. Irizar utilised its technology transfer model (See Irizar-TVS best practices in section 7.2.3) and sent more than 50 Indian employees to its parent cooperative (fig. 7.20). As a result Irizar was able to transfer not only the technological know-how to make new coaches but also to implement the Irizar Model of organisation, making the commitment to ensure that its plant in India was also a people centred project.



**Figure 7.20:** Irizar-TVS: market strategy (2002-2008)

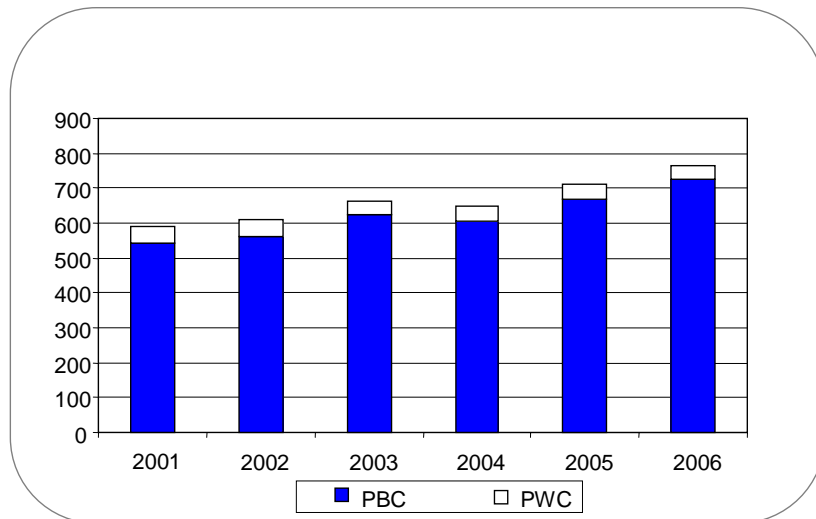
Along with the new organisational model came an increase in sales, in the quantity and quality of coaches, and an increase in productivity. The original Irizar Group strategy, coming from its experience in other markets, was to forego the production of plain or low cost models and to enter directly into the top of the market with luxury coaches. However, their Indian partners that made most of their coaches from wood did not foresee the same market possibilities. A few months later the MNEs Volvo entered the Indian market with luxury coaches, gaining a strategic market share and validating the strategy presented by the Irizar managers.

As the new organisational model was implemented, first in the Virulimalai plant and later in Pudokotai, Irizar-TVS positioned itself in the semi-luxury coach market and then began producing the *Intercentury* model, that has been extremely successful in Europe in the last 15 years and with it Irizar will establish their position in the luxury coach market.

At the end of 2006 Irizar-TVS had already approved the construction of a new factory in Virulimalai, which would double its productive capacity there, as well as the construction of a new plant in Delhi. This new production plant has a dual purpose. One is the improving production logistics, because of the need to register and certify coaches on a local basis; this requires sending coaches that are sold in the north to the point of sale twice: first the chassis, and then again upon completion. The costs of chassis transport are enough to justify the investment in a new plant. But a second reason for building a plant in Delhi was the making of coaches for urban transport, following the lead of the parent co-operative, which has developed the “Irizar *i-4*” model, and Delhi was an ideal market for this. So the plant of New Delhi surroundings will start production for an urban model, already developed by Irizar Tianjin.

### 7.2.2.3 Employment analysis

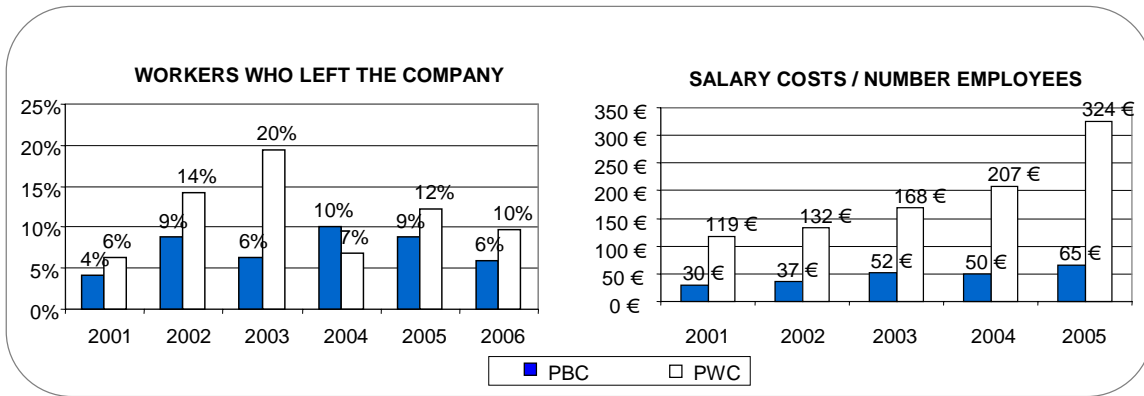
Since Irizar took over the management of the plants from its Indian partners, the number of employees has grown from 542 blue collar workers in 2001 to 669 in 2006, and the number of white collar workers was reduced by 7, due to the change from a bureaucratic system to a more horizontal one with self-managed work teams.



**Figure 7.21:** Irizar-TVS: employment growth (2001-2006)

This gradual growth has been accompanied by a radical growth in the productivity of workers. In 2001 113 coaches were produced, most of them were low quality, in wooden chassis, and tailor made for each customer; in 2005, 723 coaches, all with iron chassis, 100 of which were luxury models; in 2006 each factory produced coaches at the rate of one per day, spending 1,722 man-hours on each coach. The majority of the people interviewed at Irizar-TVS confirmed that they had made huge progress, but that they still have a long way to go, for the same number of persons at Irizar Ormaiztegi (724) produce coaches at a rate of six per day.

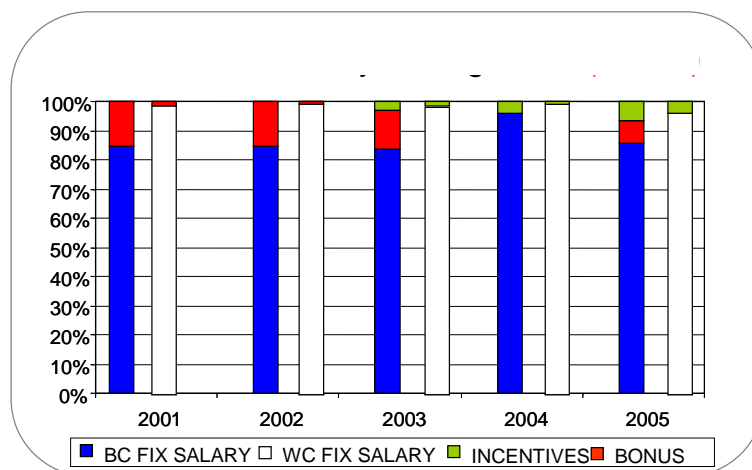
This radical change in productivity is impressive. In fact what is most evident about the management of personnel at Irizar-TVS comes out in the analysis of their absenteeism. Since 2002 a maximum of 27 assembly line employees were absent and at no time did in this period the turnover rate exceed 10% of the workforce (fig. 7.22). In addition, the manager stated at some of those that were absent were middle managers that could not stand to be in a horizontal system without bosses.



**Figure 7.22:** Irizar-TVS: workforce turnover and wage policy (2001-2006)

The wage scale is based upon the following principles:

- A commitment to pay at least a 15% more than what other companies in the same area or sector pay for blue and for white collar employees.
- A continual increase in salary since 2001, leading to steadfast satisfaction of the workers while the plant becomes more profitable. Since 2002 in the case of manual assembly line employees the average salary has doubled, and so for support and white-collar ones. With a greater amount of variation depending upon the amount of responsibility, wages have as an average tripled.
- Irizar-TVS has added a bonus that varies according to the responsibilities of each employee (which is similar to an adjustable salary), and has appended some incentives that depend upon the profitability of the plant (fig.7.23).

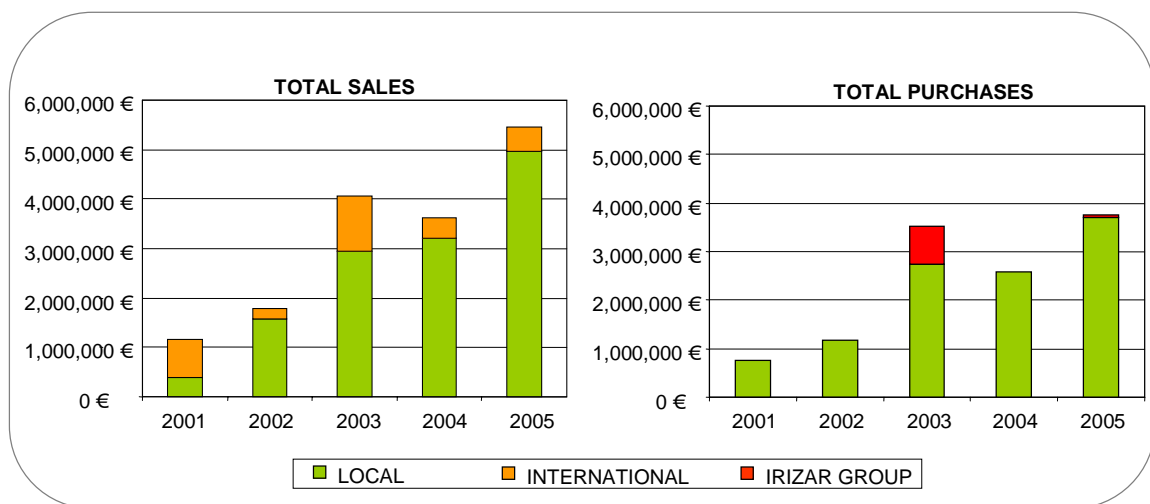


**Figure 7.23:** Irizar-TVS: remuneration policy (2001-2005)

Irizar-TVS wage policy is coherent with a model where the greatest resource of the company is its employees, and that is faithful to the Irizar Group model of a people centred company.

#### 7.2.2.4 Economic performance

The sales growth of Irizar-TVS has been exponential, growing 365% from 2001 until 2005, reaching 5.5 million Euros. This increase has occurred both in the Indian market and in markets to which Irizar-TVS exports. But the percentage of international sales is much greater than what the figures show, for a large amount of sales to Ashok Leyland are subsequently exported.



**Figure 7.24:** Irizar-TVS: sales and purchases (2001-2005)

Another fact to be highlighted is the commercial relationship between the parent co-operative and the Indian subsidiary. Unlike other companies or other sectors, where subsidiaries are dependent upon the parent company for purchasing and thus creating confusion about whose interests are being served those of the subsidiary or of the parent company, in the case of Irizar each subsidiary is autonomous and self-sufficient. As Irizar is dedicated to assembly of coaches not to manufacturing, the subsidiaries acquire inputs locally, rather from the parent co-operative, unless they are unable to assure the quality of the product. The fundamental support that the subsidiaries receive from the parent company is assistance for setting up the organisational model and for the re-engineering of processes as well as the costs of technology transfer, for the exchange of



personnel between plants, and for the use of the models developed in Ormaiztegi. In the case of Irizar-TVS in 2003, some of the product line was transferred from the parent plant, and in 2006 the *Intercentury* model was incorporated.

7.2.2.5 Implementation process

The establishment of the Irizar Group in India can be divided into two phases: from 2002, to 2005, and from 2006, to the present. It should be pointed out that the Irizar Group entered into the joint venture with only a 33% stake. This share has not grown in India, unlike in the rest of the Irizar Group subsidiaries. In Brazil, Mexico, Morocco and China, the Irizar Group gradually increased its ownership stake until it has become the exclusive owner of each company.

Since in the case of Irizar-TVS the company already existed, Irizar partners determined its location. The new plant then took on not only the production of coaches, but also a purchasing and sales role (fig. 7.25).

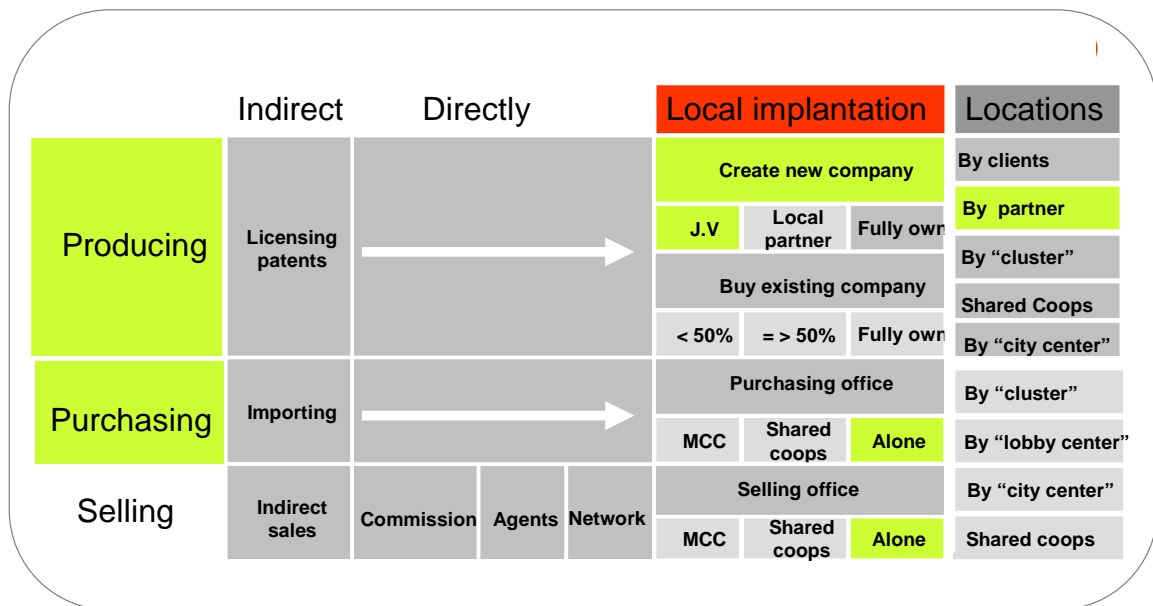


Figure 7.25: Irizar-TVS: subsidiary implementation process (2001)

The second phase begins in 2006 with the starting of the production of luxury coaches and with the approval of the construction of the two new production plants; one of these plants would be constructed next to the existing plant in Virulimalai, and one near

Delhi. In this case the fact represents a location strategy that puts the plant not near Irizar partners, but near to its customers.

### 7.2.3 Irizar-TVS best practices analysis

Irizar success is well known in Europe, and needless to say in the Mondragon Group, especially because of the particular approach to people based on commitment and responsibility. What is not so well known is that Irizar applies the same people-centred model in the production plants abroad as in the parent co-operative; this happens in India, Mexico, and Brazil as could be stated by visiting Irizar in those countries. Irizar applies this model abroad, adapting the implementation to the specific characteristics of each country.

In the following lines some of Irizar most outstanding best practices in CSR management coherent with co-operative philosophy for Irizar-TVS will be presented; some examples from other subsidiaries (Irizar-Mexico and Irizar-Brazil) will be included in order to enrich the best practices case study.

#### 7.2.3.1 Global strategy

Since the very beginning Irizar has applied a sustainable, global strategy based on a “transnational” or “metanational” organisational structure. They defined an autonomous relationship between the parent co-operative and their factories abroad. Irizar production plants abroad are self-managed, usually with the support of a European worker coming from the parent co-operative. They affirm: “It is very important to have someone that has already assimilated the Irizar philosophy that can encourage local people to follow the same path”. This function belongs usually to “the general coordinator” (what in other companies would be a general manager); after no more than four years this role is adopted by a local (Indian and Brazilian). That director then becomes the strategic captain (*responsable de pilotaje*), the constant link between the parent co-operative and the affiliate company. In the parent co-operative there is a “pilot team” formed by the Irizar Group general coordinator, those responsible for technology transfer, and those responsible for “piloting” the different production plants of the organisation.

This roughly corresponds to what would be an international operations department in a conventional company. The local team is led by the general coordinator that decides everything: what to pay to the personnel, and when to invest in the parent co-operative for the development of a new model. The parent co-operative coordinates the new product launches; both, the parent and the subsidiary, have a common catalogue of models but not all the subsidiaries produce and sale the same products. In India they have recently introduced the *Intercentury*, and in Mexico the *Irizar PB*; this model was launched in Europe in 2003, and in 2004 won the European Best Coach Award. Different countries follow their own “product life cycle”, each driven by the local markets; and in each country the company makes its own decision on the type of models to offer, and consequently to produce.

The process of creating new models is led by the parent co-operative; however, they encourage their branches abroad to launch innovation projects when they have a certain need. That was the case with the creation of the *PKD assembling process*, launched by the Brazilian team in 2000. PKD is a new coach body building process, that now has been introduced in the whole Irizar Group; it is used for helping the other factories, when they do not have enough capacity to meet the demands of the local markets. Irizar standard production line starts with the chassis; this comes from one of the chassis makers (Irizar does not produce chassis; they simply build the coach body on a chassis, for instance “Scania” or “Mercedes”, previously selected by the customer). PKD makes only the coach body and, when finished, is sent to different factories of each market; there the chassis is then purchased, and the two parts are assembled: chassis and coach body. This is not the only example of the subsidiaries innovation process; in China, for instance, a new urban coach model adapted to the local BRIC market has been developed and there are plans to produce this product in the new factory Irizar is building close to Delhi.

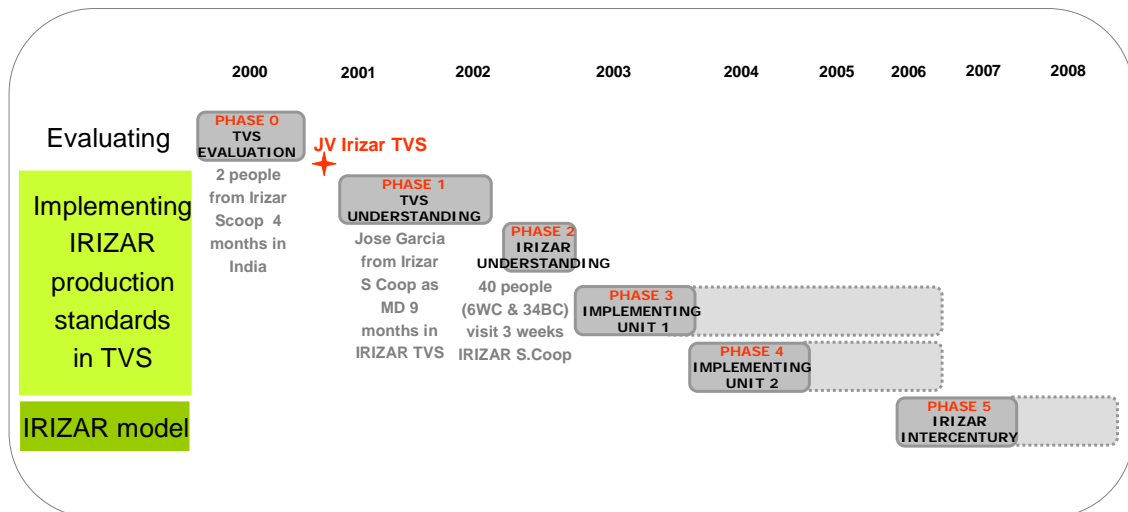
Looking at the Irizar management model, this type of organisation could be termed as a “transnational” or even a type of “metanational” organisation. In each unit, at a national level and at a team (4-10 people) level, people in the whole Group work independently. This self-management and coordination is based on “a huge investment in

communication”. The role of the traditional “boss or manager” is that of a “facilitator”, who secures communication running fluently in the factory at all level.

### 7.2.3.2 Technology transfer

The Irizar key success factor in its expanding process abroad is based on the way they approach what they call “technology transfer”. They do not have a manager of internationalisation; however, the closest role to that position would be the person responsible for technology transfer. Usually, when technology transfer is considered, we deal with patents or sophisticated technology; in Irizar however, as a people-centred project, the most valuable asset is the personnel and the way they are organised to be engaged in production. Therefore, when Irizar opens a new factory abroad, usually through joint ventures with conventional business partners, they do not put money in the new joint venture but rather organising ability and the know-how. Of course, the factory starts with the production of an Irizar coach model as part of the technology transfer, but the main change is the way the factory is organised and managed.

The company defines the specific approach, but the technology transfer is based on “transferring the people-centred way of working”, and the best way to do this is by bringing people together. Therefore, when setting up a new company, Irizar usually starts by sending a few people from the parent co-operative, in order to evaluate the current situation in the production plant abroad; then follows an “Understanding Irizar” phase, when a large group of employees from abroad is sent to the parent co-operative for 3-4 weeks, to work along side the personnel in Ormaiztegi. Note that we are talking round about 40 people, most of them blue-collar employees. The process finishes with an implementation phase at the production plant abroad; in this case usually around 20 people are sent from the parent co-operative to the subsidiary, and almost all of them are blue collar co-operative members (fig.7.26).



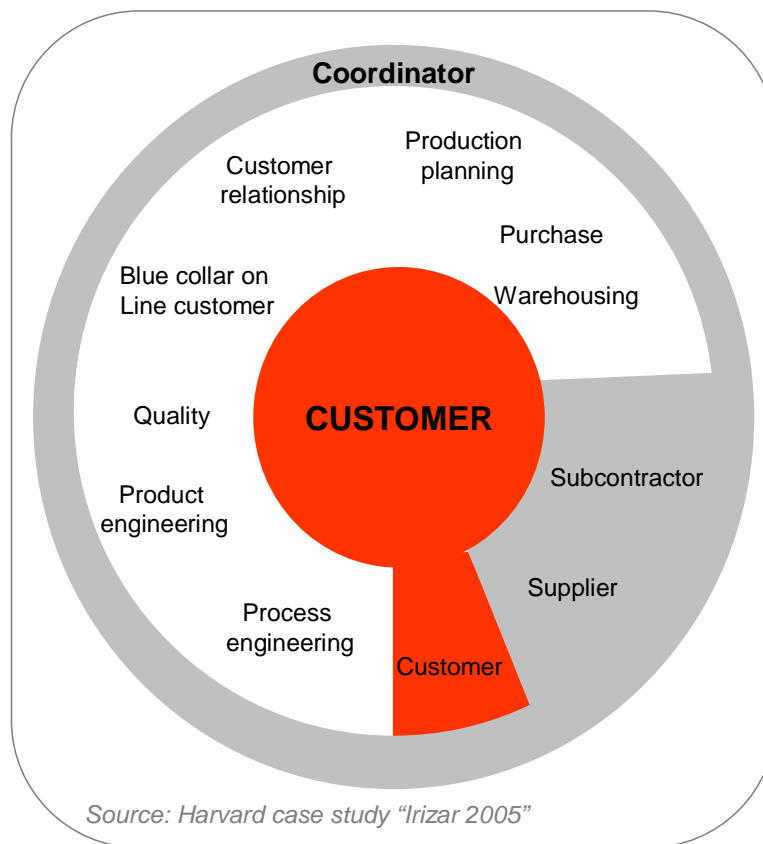
**Figure 7.26:** Irizar-TVS: technology transfer strategy (2000-2008)

This process is extremely important at the moment when the company is getting established, and also afterwards on an annual basis when they “update the model”. The explanation given by the local general coordinator of the process at Irizar-Brazil is quite impressive: “We try our best to be always innovating, in order to catch up what we have seen at the parent co-operative; but every time we sent people to the parent company we realised that they have already jump ahead, and there is always a new goal to achieve”. Or as an Irizar-Mexico coordinator commented: “as we were working with the Irizar philosophy version 2004, at the parent co-operative they were already on the Irizar 2007 version, and so we need to introduce those improvements in our way of organising worker involvement”. At times, Irizar seems more like a software company instead of an industrial luxury coach manufacturer; yet they are not updating a computer system, but rather working with know-how in order to increase the capacity of people for team work. This seems to be a good example of what academics define an “innovative meta-national company” (Doz, Santos and Williamson, 2001) or a “living company” (De Geus, 1997).

### 7.2.3.3 Self-managed teams

The Irizar approach to the participation and involvement of employees is based on a shared team responsibility. All workers are part of a team (usually 4-10 people) and the team has daily tasks; each team has the ultimate responsibility for those tasks. Every team has a “team leader” to coordinate the team activity, and is democratically voted by

the team; his role is temporary, and usually changes once a year. The “team leader” does not receive any extra economic incentive. When his period as team leader comes to an end, he returns to be a regular team member. The team itself sets their own work schedules and objectives, deciding when to work and how to do; the unique duty is that of fulfilling the daily tasks on time, and of meeting quality standards. If someone does not come to work, the team has to do his job; if there are a lot of absences, the team has to request help from another team so that they will be able to achieve their tasks for the day. The whole structure is based on “self-management”, and coordination between teams (fig. 7.27).



**Figure 7.27:** The Irizar Group: customer line process

This, however, is not a bottom-up decisional structure; it is rather the proper of a network. This structure means a radical change in the nature of daily activities, for each employee is responsible for their own work as a member of a team; and no one monitors their time-clock. This sometimes seems like a bizarre concept, especially in countries such as Mexico; nevertheless Irizar has successfully implemented this model. The overall coordinator at Irizar-Mexico explains: “Our whole philosophy is based on self-responsibility as individuals and as a team. If we try to change to a system based on

control and supervision, then nothing will work. It is impossible for me to know how many people are working right now in the factory, or when they arrived, or when they have a break; but I can tell you that today in the afternoon between 6 and 7 we will have the daily three coaches order ready, and prompt for delivering to our customers”.

#### 7.2.3.4 Profit participation

This organisation gives a great amount of freedom and responsibility to everyone and believes that in order to be coherent with that idea everyone should be rewarded according to his commitment. Irizar’s salary policy, like almost everything in this company, is quite unique. It varies from factory to factory, yet with a common philosophy of equality at its heart. A new employee starts with a basic salary, which is lower than the average in the market, but soon comes a quick increase. As long as one stays in the company and becomes more productive, once the way of working is learnt, the maximum salary can be reached in the third year. This salary is typically 10-15% more than the average market wage. Additionally, every employee has extra benefits: the same medical insurance for everyone (no gold or platinum policy), and extra medical coverage for the family and for optical and dental services.

Finally, there is a profit sharing policy at Irizar Group, although the exact conditions of this policy depend on the practice carried out for each factory. In some, profit sharing is based on monthly variable salary, in others on the production plants’ profitability. During the visits to the plants abroad in 2006 and 2007 we analysed the effect of this profit distribution policy at the end of the year on the salary of a worker. In Irizar-TVS, when the company ends without profits, workers had an additional 10-20% of the salary added in the form “incentives and annual bonuses”. In the case of Irizar-Mexico in 2006, the first year with profits, employees received as “annual profit distribution” an extra bonus amount of 16 monthly payments; in this case the same criterion was used as in the parent co-operative (distribution between co-operative members of the 30% of annual profits), but there is a slight difference: in the subsidiary the payment is made in cash, and workers do not pay money when the factory has losses.

#### 7.2.3.5 Investment in communication

At Irizar-TVS people invest from 20% to 70% of their time on communication. There are two daily meetings on production stage, plus a production line at a weekly and monthly meeting, plus an annual General assembly where everyone is required to attend. When needed, meetings include customers and suppliers. These meetings are the set ones but there are informal ones as many as needed. Communication is the only way to solve the common problems.

Once analysed meetings at the subsidiary in India, two conclusions could be clearly stated: first, the fact that the meeting coordinator behaved more like a servant than as a master; and second, the fact that in spite of being the largest democracy in the world with a powerful caste system in daily life, in those meetings everyone is free to express and defend their opinion about solving problems and proposing improvements no matter one's caste, religion or position in the company.

In almost all the factories the same situation was found: the people that one would generally expect to have the highest level of responsibility (General coordinators) did not have any fixed supervision responsibility. Nevertheless, their role is crucial for the proper performance of the whole structure, but they do not have any settled tasks nor charges. Their proper functions are at work when a problem occurs in the overall process; and this is mostly to assure communication flow within the whole network: Irizar teams, suppliers, and clients.

#### 7.2.3.6 Local community involvement

The Mondragon Group parent co-operatives have a strong commitment to distributing an average of 20% of their profits into local community social projects. But, contrary to what might be expected, until now most of the Mondragon Group production plants abroad do not have great profits to distribute to the local community; instead, they have financial investment to be paid back before they can make a profit.

Irizar S.Coop as a Mondragon industrial co-operative has a strong commitment to the local community in the Basque Country, especially in the region of Goierri where the parent co-operative is located. But the Irizar Group understands that their social commitment should be distributed in all of those regions where their profits have been



generated. Therefore, it has started to support social projects financially in some of their subsidiaries' local regions. It has to be said that until now this commitment has been symbolic, and does not meet the same criteria (20%) as that at the parent co-operative, and still has a long way to go to reach that level.

At the end of 2006 some social initiatives were identified, such as the acceptance of a local NGO for handicapped children, acting as a local polyester supplier for Irizar-TVS. Also for the Irizar-Mexico there is a long-term commitment with an NGO for "street children"; Irizar-Mexico supports it annually by the contribution of the whole company working for a day as volunteers, and also by giving some economic support.

#### **7.2.4 Overall conclusions and lessons learned**

The above analysed best practices proves the success of the Irizar-Model and their capacity to transfer "a project based on people" management model to other international frameworks in extremely different societies, cultures and business structures. This approach is successful by its positive economic and social behaviour and results, both at the parent co-operative local community and at overseas production plants in emerging countries.

In addition, Irizar-TVS specifically has proved the possibility of implementing this model in a conventional joint venture company, with only 33% minority stake of the parent co-operative.

It has to be said that Irizar outstanding commitment to the involvement of employees in the company is not common to the Mondragon Group production plants abroad; therefore, remains as a best practice example and as a point of reference for other subsidiaries. Recently Fagor Ederlan in Brazil started a people participation process, inspired by Irizar-Brazil; other co-operatives such as Ampo, Urola or Mondragon Assembly are already following this philosophy and trying to implement it in their parent co-operatives.

Irizar is a continuous evolving project, but at this moment we dare to present some steps that the Group might introduce in the near future, or some improvements that likely will occur in their production plants abroad:

- Affiliated companies' employees will participate in ownership: we are not necessarily referring to a legal co-operative structure, but to a model inspired by the GESPA model, that the Eroski Group has followed while expanding all over Spain. Briefly, it consists in creating a new legal structure, partially owned by the parent co-operative and partially owned by the workers in the subsidiary companies. The legal structure replicates the co-operative members' rights and obligations, and the worker-owners are represented at the Parent Co-operative general assembly. Becoming partial owner of Irizar abroad will likely increase employees' sense of belonging to the Irizar Group. It is true that employees abroad will find it hard to make the initial contribution of capital required to be owners, but they can gradually become members by using a portion of their annual profit distribution as an investment at the subsidiary.
- Inter-cooperation between Mondragon production plants abroad would be fostered by placing their subsidiaries together: Irizar is a model that can serve as inspiration for many other co-operatives. It would be of great impact if Irizar were to define as part of their mission the expansion of inter-cooperation, for it has a great experience to share with other co-operatives and something to learn as well.

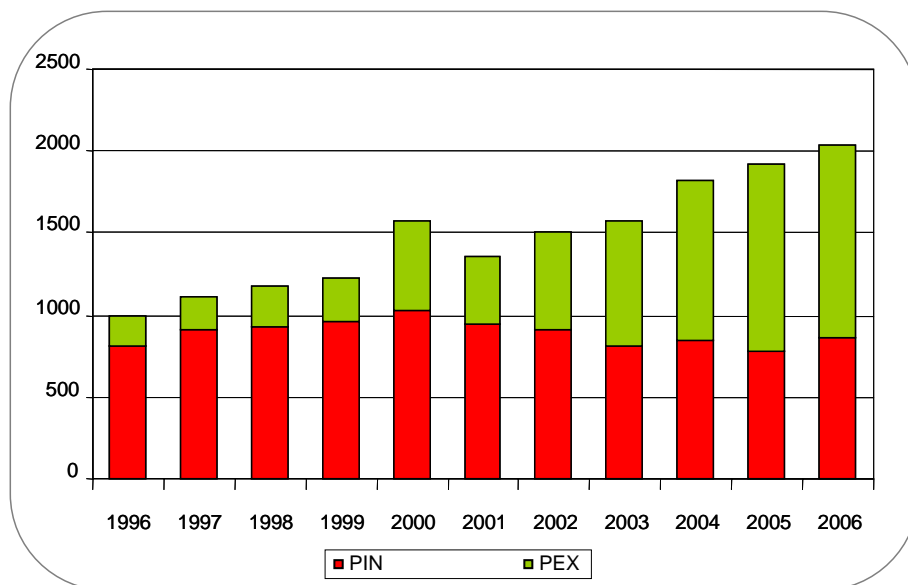
### 7.3 CASE STUDY 3: COPRECI C.Z. S.R.O. (CZECH R.)

#### 7.3.1 The Copreci Group

##### 7.3.1.1 Introduction

Copreci S.Coop is one of the first co-operatives of the Mondragon Group; it was created in 1963 as a potential provider for Fagor Electrodomésticos and for other gas cooker appliances manufacturers. It has always been a worker co-operative company with a customer-oriented approach.

At the end of 2006 Copreci had 2,030 employees; at the parent co-operative in Aretxabaleta (Gipuzkoa-Spain) 863, and from these 688 were co-operative members. At the manufacturing plants abroad 1,167 were working in Mexico, Czech Republic, Italy, China and Turkey.



**Figure 7.28:** The Copreci Group: global employment (1996-2006)

##### 7.3.1.2 Reasons behind international multi-localisation

The Copreci leitmotif is to serve the client, and in their business this means to be close to the main production centres of the largest client. During its first 30 years Copreci was able to supply their European clients from their production plant in Aretxabaleta. But

back in 1989 Copreci needed to assume horizontal foreign direct investment integration (HFDI), thus starting an international multi-localisation strategy. A United States client was establishing their production centre for barbecue grills in Mexico; if Copreci was willing to keep the customer had to establish a factory there. Copreci did not have any experience of operating abroad, as was also the case for the whole Mondragon Group. They did not know how to do it, especially coming from a worker co-operative local environment and culture. But losing this customer would mean the renouncing to the United States market, and consequently to the barbecue grills business; therefore, a new factory was opened in Guadalajara (Mexico) in 1989.

This was the first of several demands that came from other countries for opening new production plants abroad: Czech Republic 2000, Italy 2002, Brazil 2004, Turkey 2005 and China 2006. Once the large home-appliances customers moved to a new country, Copreci had to follow them.

#### 7.3.1.3 International activity 1999-2006

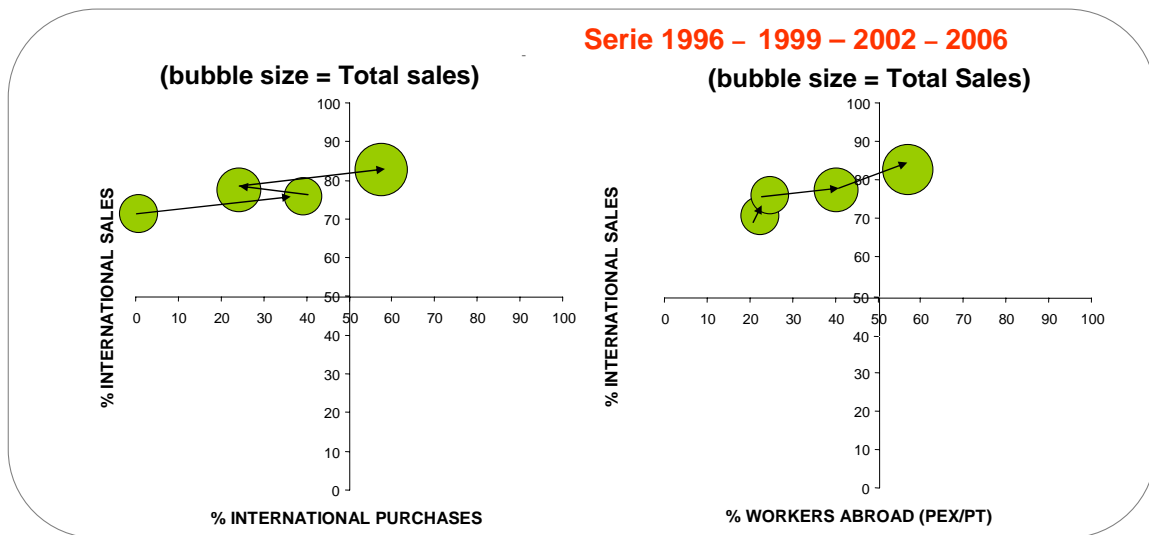
At the end of 1999 the Copreci Group already had 10 years of international multi-localisation experience. At the end of 2006 it also had seven production plants with a 1.167 people abroad. Copreci has opened almost a new factory a year during the period 1999-2006. Based on an international horizontal integration (HFDI), accessing to new markets shares, Copreci total sales has almost doubled since 1999.

Main results of international multi-localisation activity during the period:

- Copreci became a global supplier represented in three continents, capable of supporting global manufactures worldwide and local smaller players in emerging countries with high market growth rates.
- Copreci has implemented a purchases internationalisation process, driven by their production plants in lower cost countries (LDCs) abroad, improving local and global purchasing costs and logistics.
- In 2004 a strategic re-definition of the organisation took place in order to operate globally. This strategic change transformed Copreci into a “transnational” organisational structure. The maximum responsibility for the market lays on

each geographical unit and is coordinated by the business unit overall manager. The global company improves at the same time as each single unit improves.

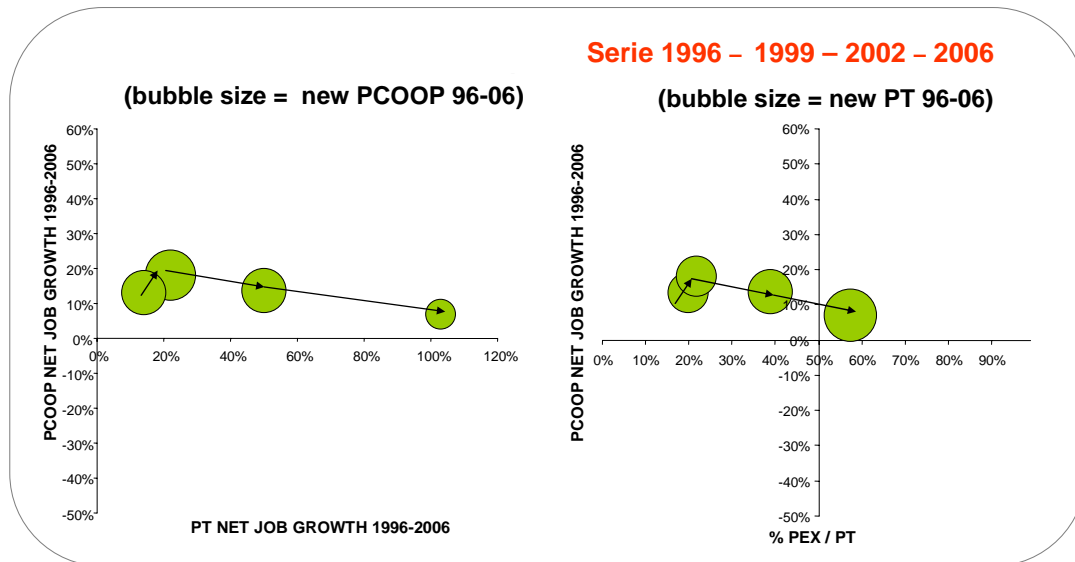
- Copreci assumed a global HR policy for appointing as board of directors at parent co-operative those managers with previous working experience at Copreci production plants, and as managers of production plants abroad the local people.



**Figure 7.29:** The Copreci Group: international sales, purchases and employees (1996-06)

#### 7.3.1.4 Social and economic goal

In the period from 1999-2006 the Copreci Group has almost doubled its total workforce. The parent co-operative has increased a 10% since 1996 while their employees abroad came from 192 to 1,167. The international multi-localisation strategy has been a success for increasing Copreci dimension and international sales (fig. 7.29). At the parent co-operative Copreci has been able to maintain its workforce on a sector that other local competitors downsized or even were forced to close their factories in West Europe. Since 1999 the capacity to have a net job growth in the parent co-operative became for Copreci more difficult (fig. 7.30). Nevertheless, in 2006 Copreci Aretxabaleta created 52 new jobs.



**Figure 7.30:** The Copreci Group: parent co-operative vs. employment abroad (1996-2006)

The Copreci Group economic objective has been widely fulfilled during the period 1996-2006, with an 88% increase in their total sales. Their international sales weight came from 75.83% in 1999 to 82.67% in 2006 (fig. 7.31). During this period a huge investment was needed in order to open six new factories abroad.

	1996	1999	2002	2006
<b>PT</b>	1,116	1,221	1,502	2,030
<b>PEX</b>	200	267	585	1,167
<b>% PEX / PT</b>	17.92%	21.87%	38.95%	57.49%
<b>TOTAL SALES</b>	107,617	103,050	135,817	188,453
<b>% INTER SALES</b>	70.22%	75.83%	77.38%	82.67%

**Figure 7.31:** The Copreci Group: global employment and sales growth (1996-2006)

### 7.3.2 Copreci CZ subsidiary understanding

In May 1997 the Copreci Group opened a production plant in the Czech Republic through a joint venture carried on by the Czech company Mora together with Copreci, Orkli and MCC Investments from Mondragon Group (each partner with a 25% share). At the end of 2006 the subsidiary was 100% owned by the Copreci Group, with a workforce of 213 persons in the factory located between Ostrava and Olomouc. This

factory produces domestic appliances components for global customers’ production plants in East Central Europe, with total sales over €13m in 2006.

The Copreci CZ project is one of the most important projects of the Mondragon Group in East Central Europe, and is the first implementation of the co-operative group in the Czech Republic.

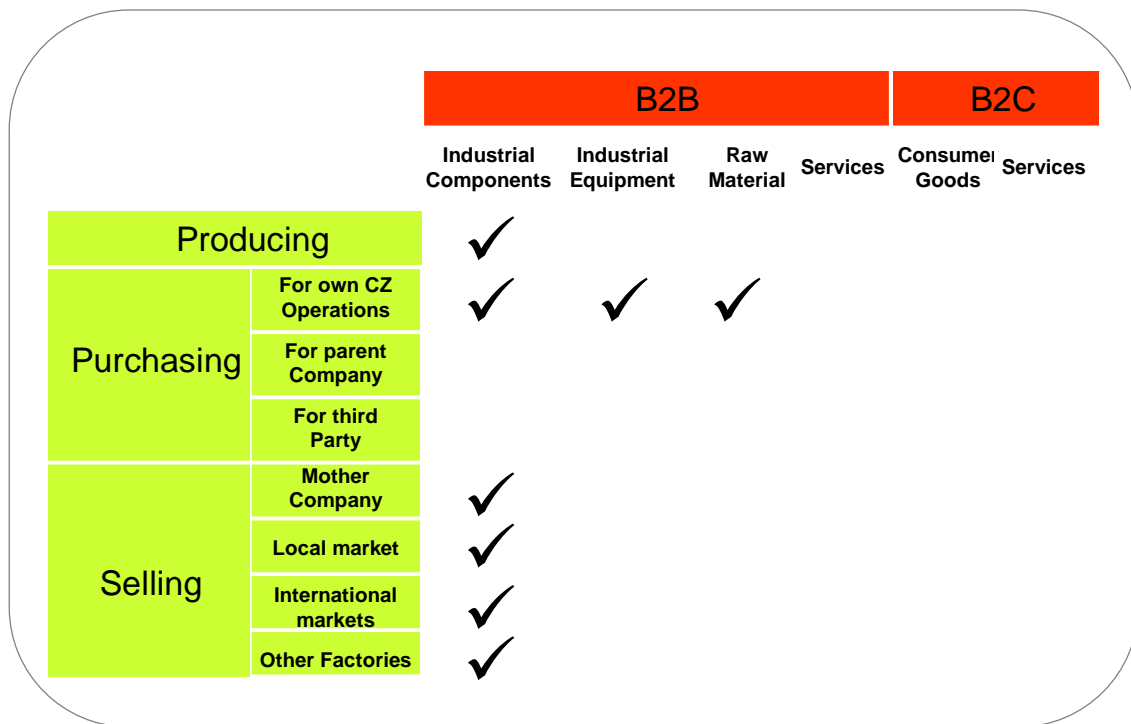


Figure 7.32: Copreci CZ: production plant activity

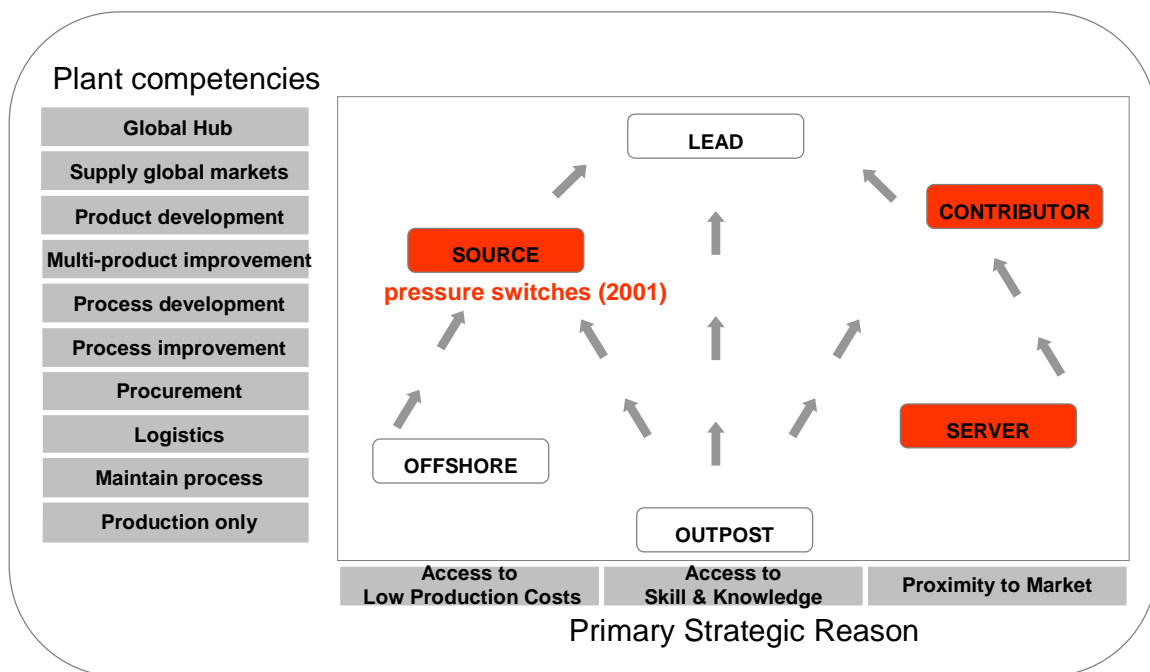
7.3.2.1 History and motivation

It could be said that Copreci CZ has been a good first example for a gradual geographical proximity process (Italy, Turkey, Brazil and China) to the main domestic appliance manufacturers worldwide. Unlike the Copreci Mexico case, the factory is mainly focussed on the barbecue equipment business line (barbecue grills); the rest of the plants consider a wider range of Copreci business lines.

Since December 1994 Copreci operated in the Czech Republic through a sales office located in Olomouc. As a result of the customer-supplier relationship, from the Mondragon Group components division a productive implementation joint venture

project took place in which Copreci and Orkli worked together in the country to produce components for the domestic appliance manufacturer Mora.

From the very beginning, Copreci assumed the implementation of the project as the main opportunity for entering in the region by satisfying its main customers. By April 1999 Copreci was already working also for other customers, such as Electrolux and Wrozamet; as Mora was not the main customer of the factory, it sold its share to Copreci. During 2002 the Orkli thermocouples manufacturing line was moved and Copreci bought also the Orkli share in the plant. Finally, in 2005 the production plant was 100% owned by Copreci with the acquisition of the MCC Investments share.



**Figure 7.33:** Copreci CZ: production plant original motivation

The main objective of the plant throughout its 10 years of activity has been the proximity to the main domestic appliance manufacturers in a global industry. From Copreci CZ components are supplied to customers' production plants in East Central Europe (fig.7.33).

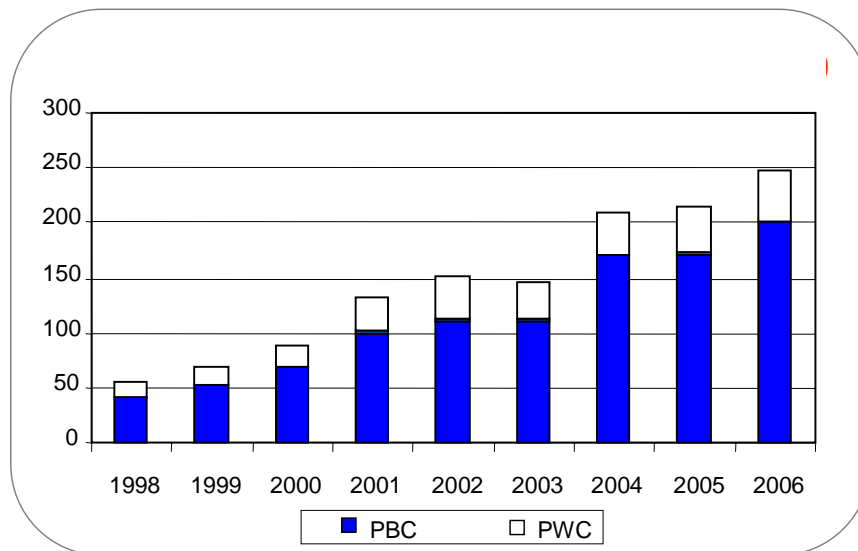
The plant manufactures mainly taps, safety valves, and pressure switches. The first two are global products developed by the parent co-operative, and the subsidiary manufactures and supplies them in its local region. Since 2001, pressure switches have been fully manufactured by Copreci CZ, supplying all the Copreci Group plants



worldwide. The same year, the production process of a pressure switch model, replaced by an electronic device, was stopped and Copreci CZ sold its assembly line to Eika CZ in 2002.

### 7.3.2.2 Employment analysis

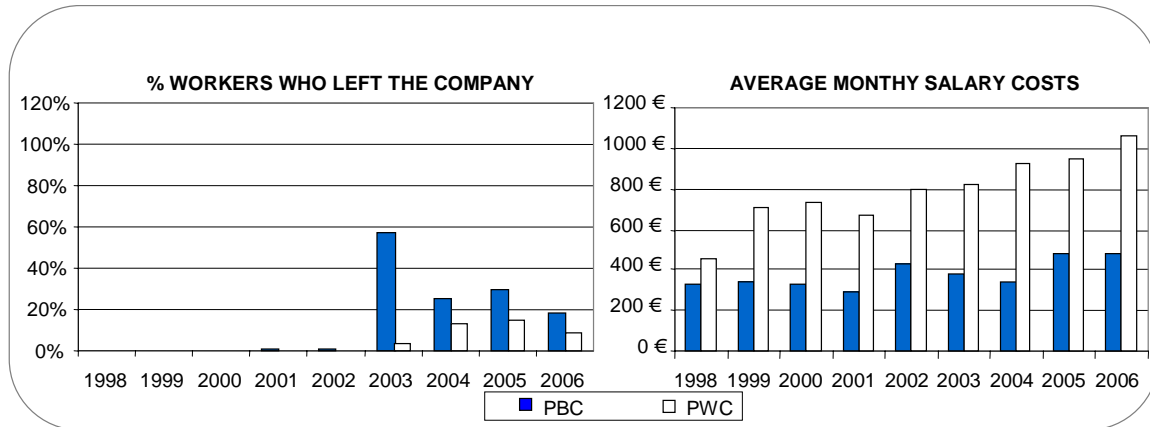
From the moment that Copreci started its activity at the old Mora plant in the rural region of Dvorce (less than half an hour from both Olomouc and Ostrava), the amount of employees in the factory has grown every year, going from a blue collar of 40 people in 1998 to 200 people at the end of 2006. The white collar amount also has grown, from 13 to 48 employees. As a result the white collar weight (% PWC / PBC) has been reduced from 32% in 1998 to 24% in 2006.



**Figure 7.34:** Copreci CZ: employment growth (1998-2006)

This gradual employment growth runs alongside a productivity increase; total sales by blue collar employee increased up to 50% since 1998. The most remarkable issue related to people management in Copreci CZ is the low staff turnover. According to the information provided by HR department at the plant, until 2002 blue collar turnover was almost zero, and even taking into account the 2003 results, the turnover has been reduced gradually. At the end of 2006, it was already below 20% on an annual basis. This is an outstanding record for a company operating in East Central Europe.

White collar turnover always remains under 15% in the whole period, even in the last four years when volatility within the industry has shot up. It has to be stated that the basic salary at the plant has gradually grown during the last 10 years in a constant way, maintaining a narrow gap between maximum and minimum salaries during the period.



**Figure 7.35:** Copreci CZ: workforce turnover and wage policy (1998-2006)

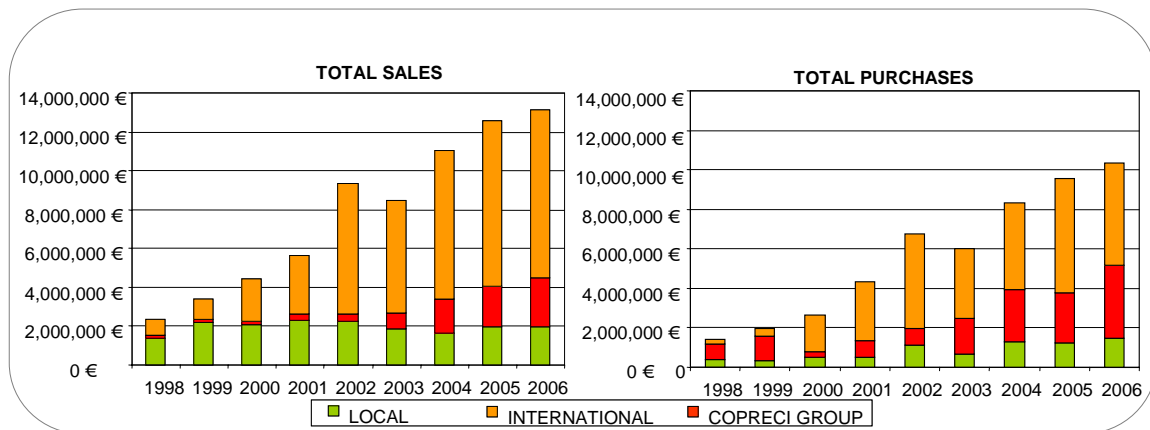
Salary policy is based on the following principles:

- To assure the workforce satisfaction, keeping a high sense of belonging which results in a minimum staff turnover. The high stability of both blue and white collar stands out.
- The wage parity with the environment is maintained, although the strategic location of the plant in a rural environment prevents from the instability due to the massive arrival of multinationals. The average salary scale for blue and white collar has always been maintained above other companies in the neighbourhood.
- A continuous increase in workforce and sales since 1998, enabling people satisfaction as the factory productivity and profit growth. Since 1999 the blue collar average salary increased by 50% and white collar by 130%.
- The production plant salary policy included a performance bonus for every employee.

Copreci CZ people management policy has been one of the keys for the success, as Copreci was able to defend itself against a radical change in the country, when many multinationals arrived in the Czech Republic, mainly for the automotive industry.

### 7.3.2.3 Economic performance

Copreci CZ total sales growth has been significant, with an increase of 452% since 1998 until the end of 2006, the year in which the total sales exceeded €13m. The analysis of this huge evolution shows something even more surprising and exemplary: the continuous integration of Copreci CZ sales and purchases in the global activity of the Copreci Group.



**Figure 7.36:** Copreci CZ: sales and purchases (1998-2006)

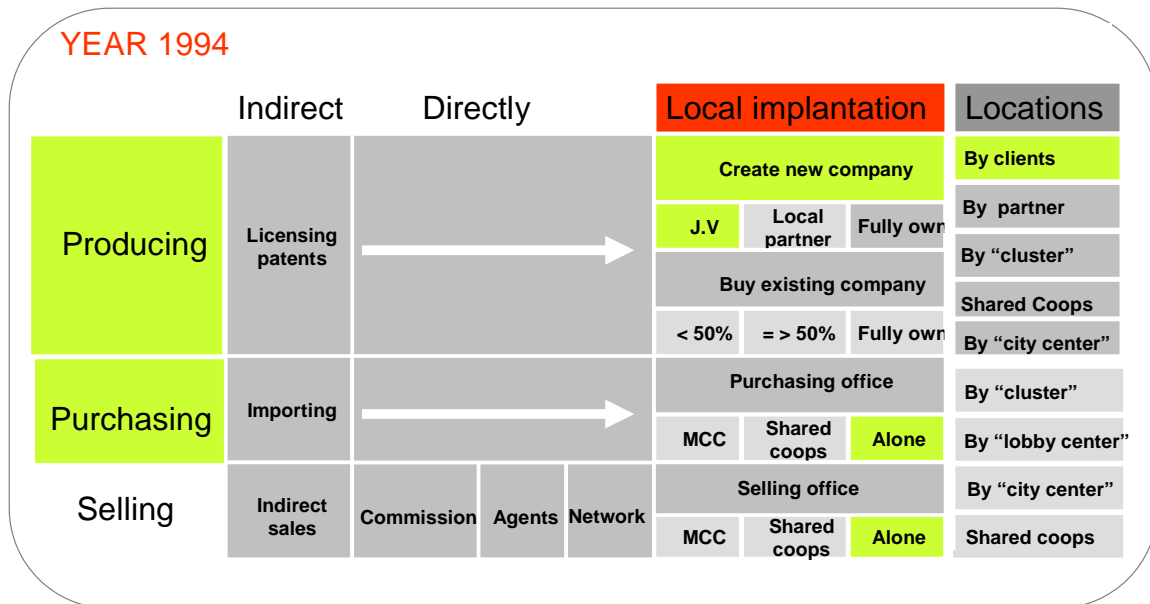
The production establishment of Copreci in the Czech Republic was ahead of the massive arrival of large manufacturers to the region. This fact is a constant in other places such as Turkey, China or Brazil and is a success key in the Copreci Group international strategy. Thanks to this strategic position, as large manufacturers established in the region, sales shot up. The fact that the local sales remain constant and international sales grow is because the main production plants in the region have not been created in the Czech Republic (at the end of 2006, the main countries for Copreci CZ exports were Poland, Romania, and Italy).

We can observe also the weight of Copreci CZ sales to Copreci Group, important since 2001 and due to Copreci CZ definition as the development and production centre of pressure switches for the whole group. The purchase analysis also shows an exemplary performance, changing from an excessive dependence on parent co-operative to an international self-dependant model. At the end of 2006 Copreci CZ bought 18% in the local market, a 38% to the Copreci Group, and a 42% in the international market.

### 7.3.2.4 Implementation process

In the establishment process of the Copreci Group in the Czech Republic there are three different stages: 1994-1997, 1997-2004 and from 2005 onwards.

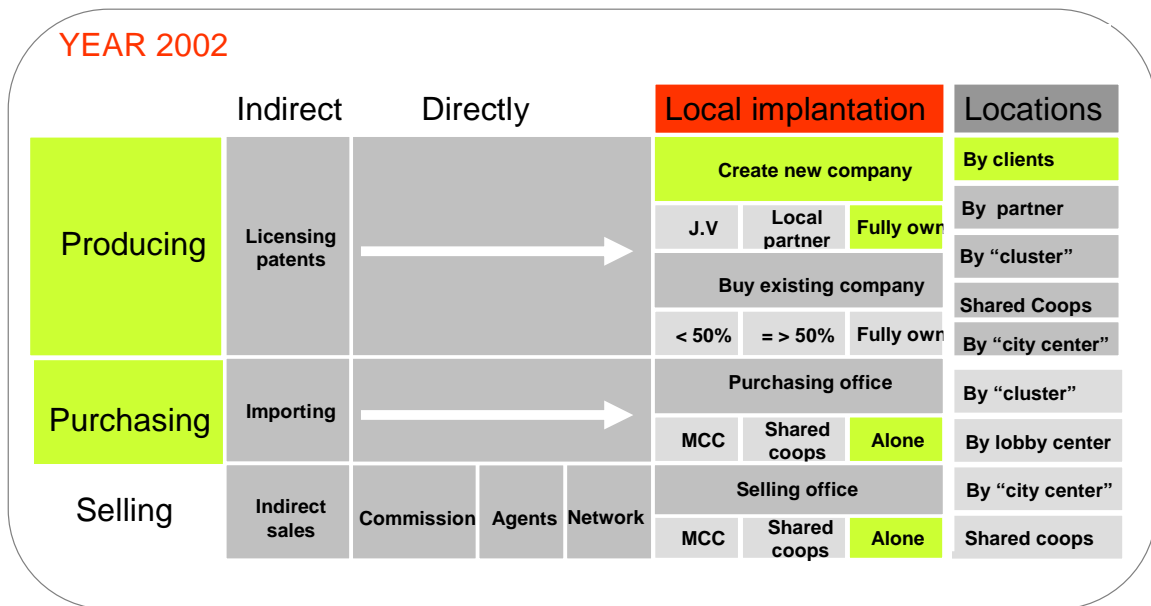
1. The first stage is characterised as that of the entrance in the country, having in the region a sales office to size the ability of this new production centre that was in its first steps. This office also allowed sharing interests, for it was a common office for Copreci, Mora and Orkli (fig.7.37).
2. The second stage (1997-2004), was the opening of a new production plant together with partners, that provided Copreci the chance gradually to take on the whole project, since it was the most active company in the plant. It is important to highlight that the location of the factory is the same of the customer-partner Mora, and that has become a strategic one for two reasons: first, for the future development of domestic appliances production centre in Europe, as it is only a few hours distant from Wrocław (Poland); second, for the rural environment with a stable population, somehow in line with the multinational boom and consequently as a solution to the workforce instability problem (fig.7.38).



**Figure 7.37:** Copreci CZ: subsidiary implementation process (1994)

3. The third stage began in 2005 with the 100% ownership of the project by the Copreci Group. It is at that moment when, as a result of the strategic re-design of the organisational structure, the Polish manager assumed the management of the

production plant. From then until mid-2007 the manager from the parent co-operative remained in the subsidiary, focused now on prospecting the new markets, such as the Russias.



**Figure 7.38:** Copreci CZ: subsidiary implementation process (2002)

The new structure also promoted a greater contribution from the subsidiaries; Copreci CZ is an example within the Copreci Group for its constant contribution to improvements. As an example, could be mentioned the proposal of a new delivery system of “two way product packing”, that allowed a greater cost saving and also an environmental commitment. At present, this improvement is implemented in all the deliveries of the Copreci Group worldwide.

**7.3.3 Copreci CZ best practices analysis**

The Copreci Group has been a reference in the Mondragon Group during the past 50 years. Copreci is one of the first co-operative to open a production plant abroad in 1989 in Mexico, it is also one of the most experienced companies in international markets. As it is the largest company of the Mondragon Group components division, most of the other co-operatives found in Copreci an example to be followed.

Within Copreci, initiatives continue: such as the new global management structure, international professional career management, or new employees property participation as co-operative collaborator members.

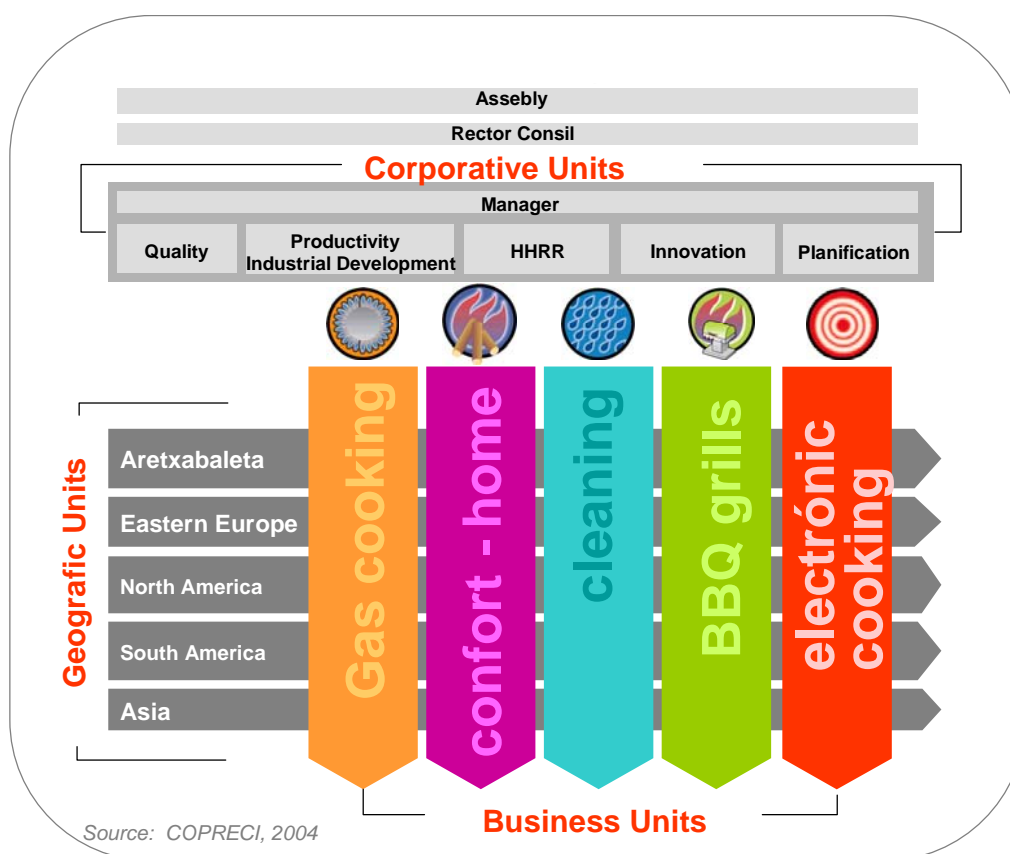
In the following lines some of Copreci most reliable best practices in CSR management coherent with co-operative philosophy, based on Copreci CZ activity, are examined. Examples from other production plants analysed are also included (Copreci in Mexico, Turkey, China or Brazil), in order to enrich the best practices case study.

### 7.3.3.1 Global strategy

The Copreci Group has defined a sustainable global strategy based on three dimensions: corporative, business and geographic units. Since the 1989 experience in Mexico, more requests came from other customers: from Italy, the Czech Republic, Turkey and China. This process accelerated intensely from 1994, forcing Copreci to open a new factory almost every two years. In 2004 it had five factories worldwide, though still operating with the same local strategy that had been used while it was a single factory in Spain and was causing many problems. Therefore, in 2004 an organisation strategic re-definition took place.<sup>142</sup> The whole company was divided in three dimensions (fig. 7.39).

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<sup>142</sup> The new strategic organization structure was developed in collaboration with The Boston Consulting Group.



**Figure 7.39:** The Copreci Group: transnational organization structure

Everyone at the company was assigned to a specific geographic unit (Aretxabaleta, East Central Europe, North America and Asia) and business unit (gas cooking, home comfort, cleaning, BBQ grills and electric cooking). The whole structure was supported by the corporate unit, with the final decisions and control remaining at the governing council<sup>143</sup> and the general assembly.

This strategic change transformed Copreci organisational structure in something between a “matrix organisational structure” and a “transnational company”. The main responsibility was in the hands of each geographical unit, and in the hands of each business unit general manager. The result was that the global company improved at the same time as each single unit improved.

<sup>143</sup> “The governing council of a co-operative enterprise is elected at the annual general meeting and is the ultimate representative body for management, the selection of a managing director standing out as one of its main functions. The managing director is the co-operative enterprise’s chief executive, as far as business functions are concerned” (J.CATANIA, 2006b).

And as a result of this change, many aspects have also improved from the social dimension point of view: new local managers have replaced the former parent co-operative people that directed the factories, and innovation not only came from the parent company to the subsidiaries but from where was needed (Copreci Mexico registered more patents in 2006 in the United States than the rest of the group worldwide); also for the first time people from the subsidiaries became collaborator co-operative members<sup>144</sup>.

### 7.3.3.2 International managers profile

Local managers at the affiliated companies and “internationally experienced” managers at the parent co-operative became the general profile. From 2004 the Copreci Group introduced a new policy that consisted in incorporating reliable people, that had been working in the affiliated company for a few years, as general managers of the affiliated company. They would have a training stage in the parent co-operative for a few months, in order to interiorise the co-operative management culture. After a period working together, the expatriate manager would return home, leaving to the new local general manager the full responsibility over the production plant abroad.

In 2007 both in Mexico and in the Czech Republic we interviewed the new local general managers, and also the expatriates who were on charge of the affiliated company before.

Regardless of whether they were Basque, Mexican or Czech, development within the Mondragon co-operative environment led to an equal assimilation of co-operative principles. The Copreci Group HR director expresses the importance of appointing local employees as subsidiary general managers, in order to improve not only the economic performance but the co-operative principles extension.

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<sup>144</sup> We had the opportunity to share and example on how this transnational organization works strengthening the global and local dimension while attending a global customer support. During a six-hour trip, the subsidiary Mexican manager and the barbecue grill unit global director received a call from their United States customer asking for quick help as their Chinese factory needed an urgent and unexpected order to be sent in fewer than 12 hours. The two Copreci managers were able to coordinate the urgent order with their colleagues in China and gave a call back to the customer with the solution in less than one hour. They were having an important meeting with the same customer the week after to start a new product, crucial for Copreci-Mexico success.



### 7.3.3.3 Ownership participation

The first experience on employees' ownership participation abroad<sup>145</sup> has come from Copreci-Mexico, Copreci-CZ and Copreci-Italy, one of those "infant" affiliated firms that gave hope to professor Vanek<sup>146</sup>. The "collaborator members" was the best way, until now, that the Copreci group found to increase employees' ownership participation at production plants abroad. The rights, obligations and the process to become a collaborator co-operative member are in general terms similar to a conventional co-operative member, with two main differences:

- The "collaborator members" until now are managers and white collar staff and they have a different salary scale from the parent cooperative. Contrary to what may be thought, once the wage policy is adapted to the local environment, the salary will be higher than the one paid at the parent co-operative.
- There is only one parent co-operative Copreci S.Coop, instead of creating a new second grade co-operative abroad.

This initiative started in 2006, incorporating the general managers of Copreci-Mexico, Copreci-CZ and Copreci-Italy. A few months later, five new white collar employees from Copreci-Mexico were already proposed as new collaborator members.

During the visits to Copreci plants abroad, the CEOs were asked about their reasons to become collaborator co-operative members. Their answers ran as follows: "I want to become a co-operative member because I want to be part of the Copreci project, not only as an employee but also as a member; I want to be someone fully committed to the co-operative project, even more I am sure that sooner or later we will extend the same company spirit, culture and people commitment to the subsidiary"; and also "We are willing to be part of the same co-operative member structure, to have a voice in the general board and a vote in the general assembly, to be part of the same family. After working for the company for more than 15 years we feel fully committed to the Copreci

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<sup>145</sup> This similar Collaborator co-operative member structure has recently being used by other Mondragon global co-ops, such as the Ulma Group with more than 50 collaborator members abroad or Fagor Automation.

<sup>146</sup> To have a deeper understanding of professor VANEK impressions and reflection, while visiting in 2004 with professor A.M. ERRASTI two MCE affiliated firms in East Central Europe including Copreci CZ, see J. VANEK 2007.

Group, values and culture, and we want to have the same commitment from the company”.

#### 7.3.3.4 Long-term commitment

To conclude with the Copreci Group best practices analysis, its long-term commitment with production plants abroad has to be emphasised. In 2006 the Copreci Mexico main customer, the one that asked the parent company to move to Mexico in 1989, opened a new factory in China re-locating its American activity. The Copreci Group would not lose its customer, now supplying the same product from Copreci China at a factory opened in 2005 in Zhuhai. This strategically important customer re-location policy did not affect the Copreci Group, but did have an important impact on Copreci Mexico activity. The visit and interviews to Copreci-Mexico in Guadalajara made clear that the team at the factory was preoccupied, yet confident. They were working on a new product that had already been patented for the United States market, so they were safe from Chinese competition.

#### **7.3.4 Overall conclusions and lessons learned**

The previous facts complemented with our personal feeling: the visiting Copreci factories in Mexico, CZ or Turkey caused the same hope about the future evolution of affiliated companies that professor Vanek had while visiting Copreci CZ in 2004; with a slight difference: those infant affiliated firms are becoming adults, yet they are already adolescents.

## 7.4 CASE STUDY 4: FAGOR EDERLAN BRASILEIRA (BRAZIL)

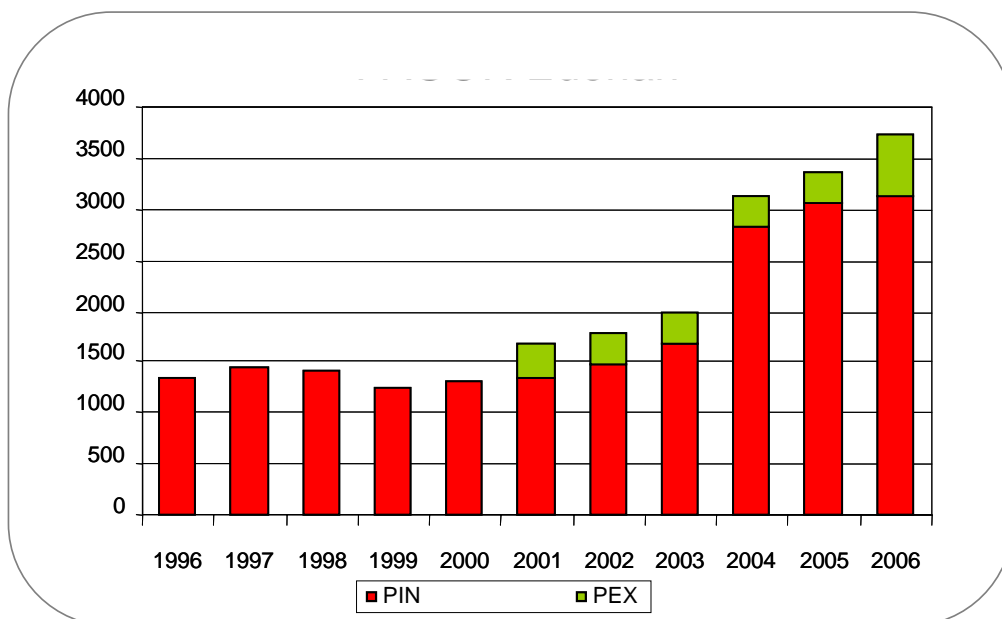
## 7.4.1 The Fagor Ederlan Group

## 7.4.1.1 Introduction

Fagor Ederlan S.Coop, founded in 1963 and characterised by a continuous policy of technological innovation, is now the referent for automotive components Tier 1 supplier in Europe.

At the end of 2006 Fagor Ederlan had 3,727 employees; at the parent co-operative in Mondragon (Gipuzkoa-Spain) 1,568, and from these 1,239 were co-operative members. At the manufacturing plants abroad 614 were working in Brazil and the Slovak Republic. Besides, Fagor Ederlan has 931 employees in Usurbil, Mondragon and Zaragoza in Spain.

In the past years the company has experienced significant expansion with the incorporation of the firm Victorio Luzuriaga with two production plants in the Basque Country, enabling to double its domestic production capacity. In addition, such expansion has been accompanied by the initiation of the process of international production.



**Figure 7.40:** The Fagor Ederlan Group: global employment (1996-2006)

#### 7.4.1.2 Reasons behind multi-localisation

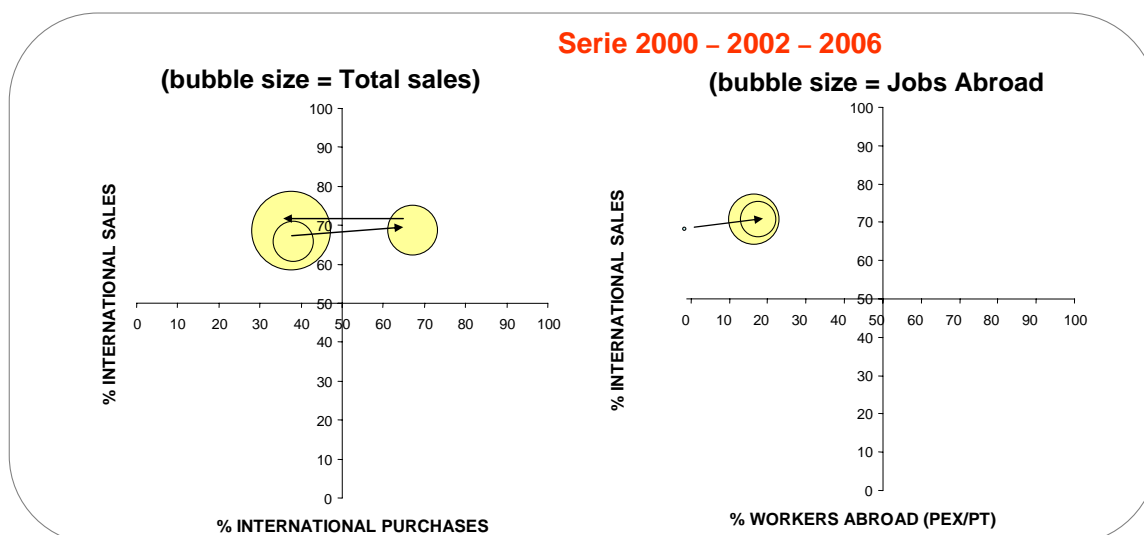
Whereas one of the main characteristics of the automotive sector is the power that the large manufacturers hold over their component suppliers, the other one is the integration of modular production.

The international experience began in 1998 when General Motors granted the production of two modules for the *new Opel Corsa* to Fagor Ederlan and to a group of various companies from the Mondragon Group automotive division. The contract required the manufacturing support from one factory in Zaragoza and from another in Brazil. In February 2001 a stake was acquired in the Fundação Brasileira Ltda. (a company that had been founded in 1951), which in turn gave place to the joint development of a new greenfield plant.

This experience was followed by the development of large-scale motor manufactures in the Czech Republic and the Slovak Republic, with both countries providing a significant amount of strategic importance for low cost production in Europe and at the same time offering a great local market growth expectation. With the aim of supplying the European market through combination of its two production poles, Fagor Ederlan recognised the need for a certain degree of manufacturing to be located in East Central Europe. Consequently, Fagor Ederlan examined the possibility of either establishing a new greenfield project or acquiring an already existing company. The decision was to acquire in January 2006 the 100% stake of a company in the Slovak Republic, set in the largest industrial complex for aluminium injection in the country.

#### 7.4.1.3 International activity 1999-2006

Despite international sales, already a significant part of total sales, during the period 1999-2006 Fagor Ederlan further developed its multi-localisation strategy, which gave place to a threefold increase of the aforementioned total (fig. 7.41). It should be remarked that such a strategy has been implemented alongside a large scale increase in the internal productive capacity.



**Figure 7.41:** The Fagor Ederlan Group: international sales, purchases and employees (2000-06)

The main consequences of this strategy during the period 2000-06 were the following:

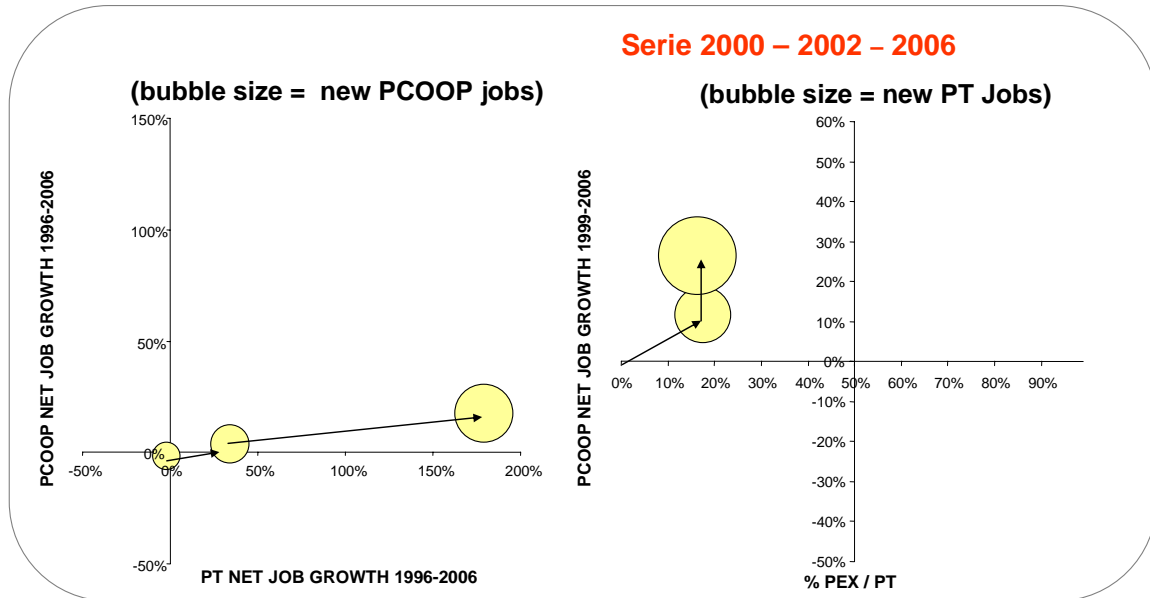
- Fagor Ederlan has become a worldwide supplier that ensures customer service from Europe and Brazil. At the same time, the opening of a second production base in East Central Europe has not only given access to new markets, but also has reduced susceptibility to competition from new potential challengers, coming from other countries in the region with lower labour costs and better geographical location<sup>147</sup>.
- In a highly capital-intensive sector, which not only demands a significant initial outlay in machinery but also sees labour accounting for 12% of operating costs, entrance into new markets has allowed for both diversification of investment in various sites, and optimisation of purchasing processes.
- An exceptional increase in the scale of operations, and in productive capacity.

#### 7.4.1.4 Social and economic goals

The employment acceleration at Fagor Ederlan is unparalleled: from 1,312 in 1999 to 3,272 at the end of 2006. Such growth is to a large extent due to acquisitions and increased involvement in projects that were already operating. If the period from 1996 is considered, it is noticeable that until 1999 there was not a net increase in the number of

<sup>147</sup> For a deeper understanding see figure 5.27 in chapter 5.

employees at the parent co-operative; nonetheless, while growing the acquisitions of other companies (both in domestic and international settings), the co-operative also grew and at the end of the period were 232 new employees, that meant a 20% net job growth (fig. 7.42).



**Figure 7.42:** The Fagor Ederlan Group: parent co-operative vs. employment abroad (2000-06)

Such statistics suggest, at the point of writing, that the multi-localisation strategy has been highly beneficial in terms of the commitment to employment at the parent co-operative. From 2000 turnover was increased by 234%, alongside the weight of international sales (fig. 7.43).

	2000	2002	2006
<b>PT</b>	1,312	1,795	3,727
<b>PEX</b>	0	317	614
<b>% PEX / PT</b>	0.00%	17.66%	16.47%
<b>TOTAL SALES</b>	184,427	269,354	617,450
<b>% INTER SALES</b>	66.52%	69.90%	70.77%

**Figure 7.43:** The Fagor Ederlan Group: global employment and sales growth (2000-06)

## 7.4.2 Fagor Ederlan Brasileira subsidiary understanding

7.4.2.1 Background and current context

In February 2001 Fagor Ederlan took on its first production project abroad, in a joint venture that involved the purchase of 51% of the Brazilian company Fundação Brasileira, which in turn created Fagor Fundação Brasileira.

At the close of 2006, 447 employees worked at the old Fagor Fundação Brasileira site and a new greenfield factory opened in 2001. Components are produced for customers from the automotive manufacturing sector (General Motors is the main one) that also operate in Brazil, as well as for other customers in the continent (with a 2006 turnover over €36m).

Fagor Ederlan Brasileira is the only Mondragon Group production plant abroad, which has examined the possibility of becoming a worker second grade co-operative.

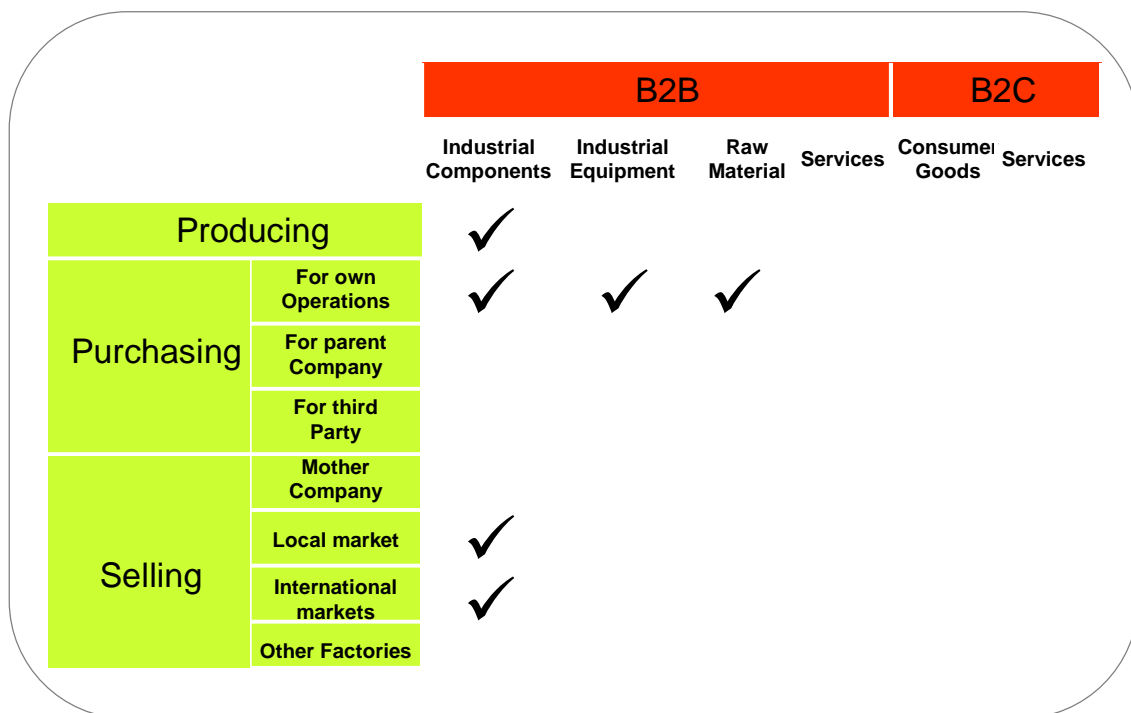


Figure 7.44: Fagor Ederlan Brasileira: production plant activity

7.4.2.2 History and reasons behind strategy

In 1997 Fagor Ederlan was a local co-operative without aspiration for international expansion and lacking also a culture thereof. In developing the *new Corsa* model, General Motors sought an in-factory supplier that would be able to satisfy its modular production needs. This involved dividing the ‘modules’ of the new car into five or six parts, which demanded from the Tier 1 supplier a highly effective integrative capacity. Prior to this no co-operative had enjoyed such a capacity at the Mondragon Group, apart from Batz that had been required to work with such a process for Seat (VW Group).

Looking to a sector that required component suppliers to enlarge their capacity, the Mondragon Group developed the practice of inter-cooperation with other business groups in order to expand new industrial activities. As a result of the existing common interests, the Mondragon Group, Gamesa and Gestamp reached an agreement in 1997 to establish Automodulos, a new three-partner company.

In August of the same year General Motors ask their strategic suppliers to present an integrated offer for a unique module. As this offer was not viable, General Motors chose to seek suppliers of smaller modules. Consequently, in April 1998 Automodulos presented a “rear axis offer”, with Fagor Ederlan alone submitting a “front axis offer”. Both were accepted, but as a result of the strategic nature of the order and the qualitative advances that this would mean for the co-operative, General Motors requested from the Mondragon Group Headquarters to state explicitly how completion of the contract would be guaranteed<sup>148</sup>.

Among other stipulations, General Motors demanded the availability of two factories, the one in Zaragoza (Spain) next to that of General Motors and the other in Brazil, to supply the same module to the assembly line in each country.

In Brazil, Fagor Ederlan found itself with two options: either the construction of a new greenfield plant, or the acquisition of an existing one. Given the commitment to commence supply in a specified timeframe, the second option appeared to be the most

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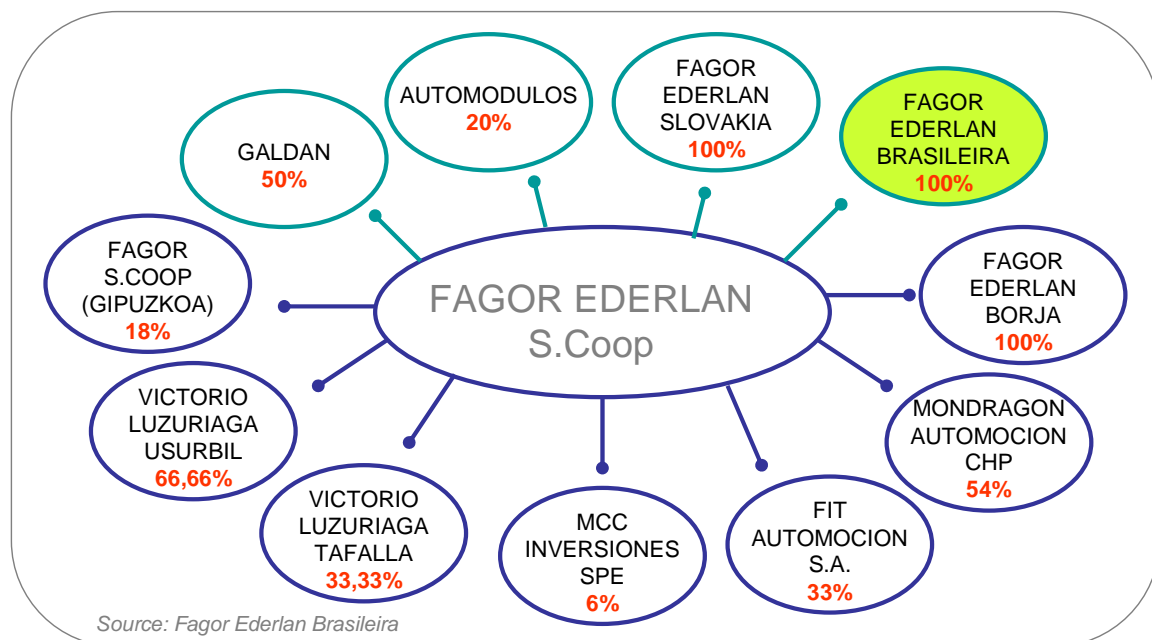
<sup>148</sup> The Automodulos project (which focussed on operations in Brazil and Argentina) from its beginning in March 1998 was unable to count on a firm and a long-term commitment from its partners. As a result of the economic crisis in Argentina and changes in personnel at each company, noteworthy progress was curtailed. Fagor Ederlan, while some of its own projects matched group strategy, acted independently (similarly to Maier) in the operations in Brazil.



suitable. General Motors suggested to Fagor that it might be of interest to the company to take a share in Fundação Brasileira. Consequently, in 2001 Fagor acquired 51% of the Brazilian company, appointing two of its own staff (one in management and one in production) to head it. The newly created Fagor Fundação Brasileira company, the first Fagor Ederlan production plant abroad, would represent the start of the strategy seeking to introduce a global dimension to investments (fig. 7.45). At the time, the capacity of the Fagor Ederlan S.Coop was 75,000 tons, and that of the Brazilian factory 25,000-35,000 tons.

As a consequence of an important order at the Brazilian plant in Extrema, Fagor Ederlan took on the organisation of the project and relocated an employee from the Basque Country to manage a greenfield site. Work started in January 2002, with the official opening taking place in March 2003.

In December 2003, “Fagor Ederlan S.Coop” acquired the remainder of “Fagor Fundação Brasileira”, merging it with “Fagor Ederlan do Brazil” to become a single organisation termed “Fagor Ederlan Brasileira Auto-pecas Ltda”. In turn, this became the representative of the Mondragon Group automotive division in Brazil.



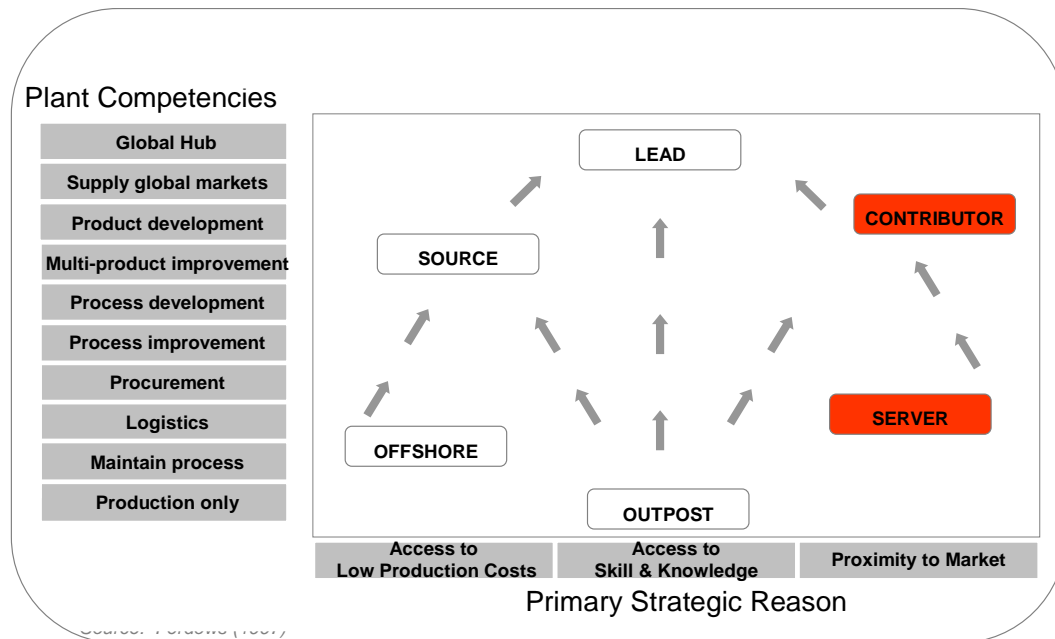
**Figure 7.45:** The Fagor Ederlan Group: holding structure

The employees, that experienced the entire process from the arrival of Fagor Ederlan, have highlighted the following changes in activity at the plant:

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- With the willingness to insert capital, the foreign partner brought a significant increase in investment to the plant at (given the globalisation of the sector) a highly important moment.
  - The being part of a large organisation, such as the Mondragon Group, opened doors to customers in Brazil that sought worldwide suppliers. For the same reason easier access to finance and to banking services took place.
  - Although the Brazilian family business did possess its own management team, many substantial improvements were incorporated into business practices. These included the introduction of the balance score card as a management tool, management of mini-factory units by self-managed teams, and the introduction of a management system.
  - Improvements in employee management were also made with the incorporation of a rigorous risk management policy, standardisation of profiles and career development that placed emphasis on training, and certain other benefits that will be outlined later.
  - The implementation of the aforementioned management system.
  - After undertaking an analysis of the company's availability in Brazil, it was also noted that it was financially more feasible to work with Edertek (a Mondragon technology centres placed by the parent co-operative) than with a Brazilian technology centre.

It should also be remarked that this process was carried out in a gradual fashion, with some fundamental elements: an intended cultural closeness, and the sharing of a working culture. This implies communication between the staff arrived from the Basque Country and the team based at the parent co-operative.

Alongside such a policy came the financial benefits of the plant, ready not only to comply with its commitments to General Motors but also to reach new customers meeting orders from the market in the continent.



**Figure 7.46:** Fagor Ederlan Brasileira: production plant original motivation

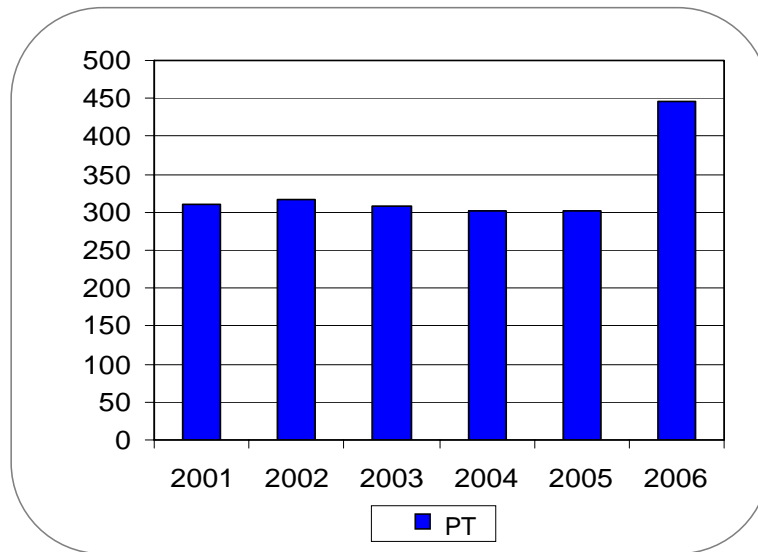
For Fagor Ederlan, the subsidiary functioned as a server from the very beginning. It is clear that the constant increase in production capacity (one that continues to experience production bottlenecks) and exchange rate shifts (involving the Brazilian coin *real* in itself, and the weakness of the dollar against the euro) have given place to the plant taking on an increasingly relevant role for the parent co-operative assuming a contributor role. As one expatriate employee stated, “the project isn’t finished yet”. Two objectives still remain: the improvement of the huge capacity of the subsidiary, and the securing of its self-sufficiency (fig. 7.46).

At the end of 2006 Fagor Ederlan Brasileira may be deemed to be an organisation that has consolidated its position; is capable of meeting the exigencies of General Motors (and hence contributing to the activities of the parent co-operative), and also is a profitable company since 2004. Fagor Ederlan has successfully implemented a model that complies with the productivity, quality and personnel management, proper to European standards.

#### 7.4.2.3 Employment analysis

Once Fagor Ederlan took on the management of the Brazilian company, the amount of employees has continued to grow, passing from 310 in 2001 to 447 in 2006; the growth

affected mainly to blue collar employees (fig.7.47). The amount of white collar employees remained practically the same, though two new management areas have been introduced: the quality control, and the labour risk management.



**Figure 7.47:** Fagor Ederlan: employment growth (2001-2005)

Such blue collar growth has been accompanied by a significant increase in productivity per capita. Given that the requirements of the motor manufacturer are extremely high, the quality of each unit has risen considerably. In addition to this, an even greater improvement has been in the production of the unit, made on time and within the cost. As many of the employees interviewed at the plant have stated, while many advances have been obtained, still remains a great deal to be done; the main challenge will be to increase production capacity with no decay in quality.

One successful factor at Fagor Ederlan Brasileira involves human resources: in that blue collar staff turnover and levels of absenteeism stand at only 1%, though the levels are higher as regards white collar staff.

Salary policy is based on the following practices:

- The managing of profiles and professional careers. All are grouped together in six such profiles or levels, and for each specific group objectives are defined (such as training, or salary packages).

- 
- Analysing through an annual market study, at least the average salary paid in the immediate environment of the plant is assured for both blue and white collar employees.
  - The implementation of a training plan per employee or profile that entails courses given by both internal and external bodies. In addition, each employee may follow a voluntary training programme which, on the condition that it is associated with the respective work of the individual, is subsidised to the amount of 50% by the company.
  - The implementation of a profit sharing scheme, that works in the following manner:
    - For blue collar and administrative employees, one that is linked to the productivity of the company and to the quality of the respective piece or component manufactured.
    - For white collar employees and senior managers, one that encompasses annually established objectives.
  - The providing of social benefits that include among others: health insurance, on-site catering facilities, childcare vouchers, company transport, and discounted medicine purchase.

The salary policy at Fagor Ederlan follows the policy implemented at the parent co-operative, though adapted to the respective country.

#### 7.4.2.4 Economic performance

Fagor Ederlan Brasileira sales growth has been exponential, with an increase of 310%, starting from €13.5m in 2001 up to €36.5m in 2006. Such a rise has occurred both in the local Brazilian market and in sales abroad.

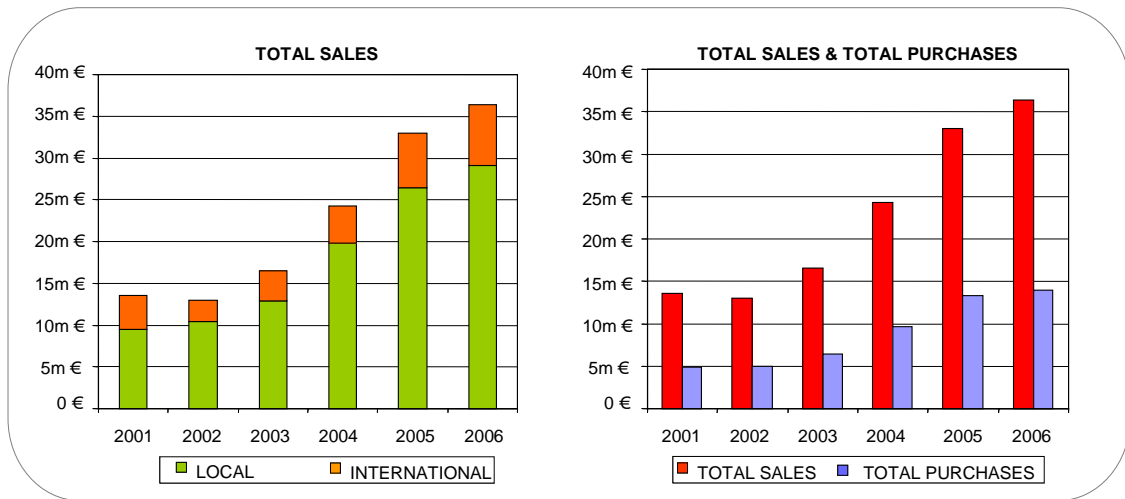


Figure 7.48: Fagor Ederlan Brasileira: sales and purchases (2001-2006)

7.4.2.5 Implementation process

When examining the operations of Fagor Ederlan in Brazil, two principal phases may be identified: The installation phase (2001-2003), and the consolidation phase (2003 onwards).

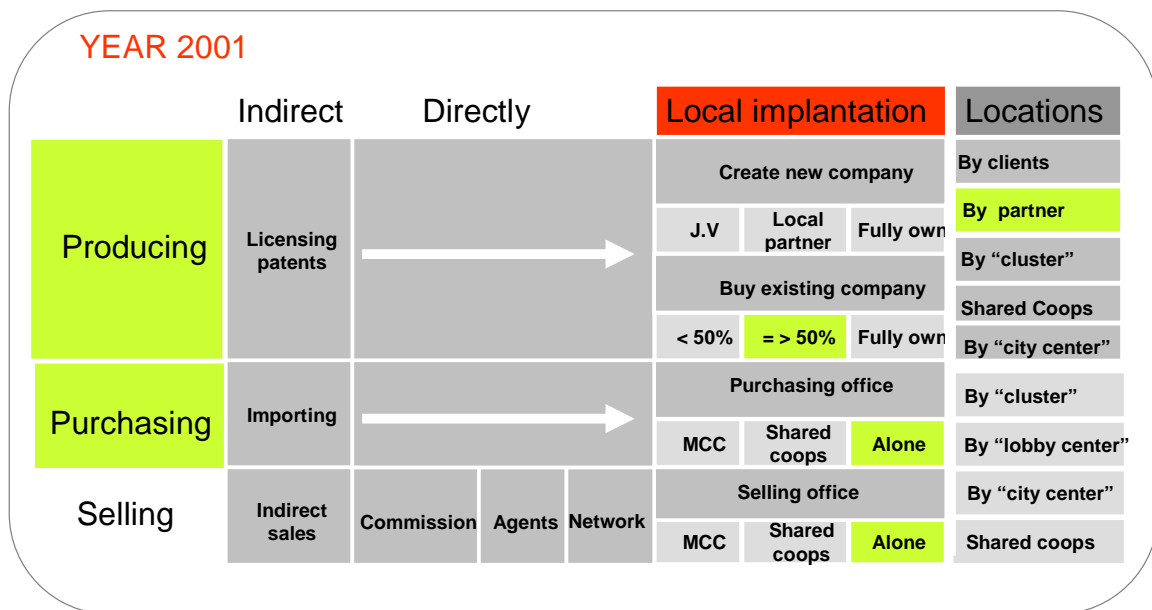


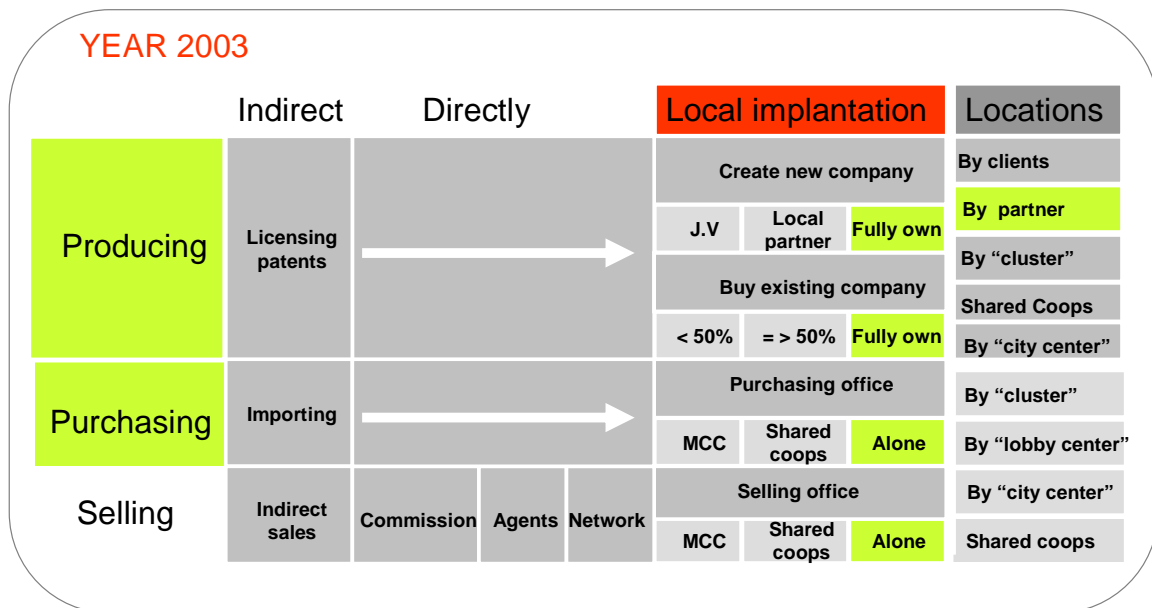
Figure 7.49: Fagor Ederlan Brasileira: subsidiary implementation process (2001)

In turn, in the first phase the following points may be highlighted:

- Participation in Fundação Brasileira, in which the co-operative purchased 51% of the company, and then taking the whole control (2001).

- Establishment of a greenfield plant, with Fagor Brasileira committing itself to 100% (2002).
- Acquisition of the remaining 49% of Fundação Brasileira (2003).

This last phase ended with the integration of the two companies under a new organisation, owned 100% by the co-operative “Fagor Ederlan Fundação Auto-pecas Ltda”.



**Figure 7.50:** Fagor Ederlan Brasileira: subsidiary implementation process (2003)

The second phase set out to consolidate the project, not only as a subsidiary of the parent co-operative that would supply General Motors in Brazil, but also as a self-sufficient entity. The main points in its development are the following:

- Developing the size of the plant and its productive capacity; this is the main bottleneck in factory activity. Given the type of business, significant investment made by the production plant abroad was required and supported by the parent co-operative. As there is no explicit commitment on the part of the customer as regards the size of contracts, the degree and timing of investment remains problematic.
- Continuing professionalisation of the management of the production plant, as well as a dual objective: improvement of employees’ productivity, and their production quality.

- Examining the subsidiary together with the parent co-operative the possibility of the Brazilian production plant to become a co-operative. As this was about to be carried out, analysis was halted.
- Introducing “social equity” at the company with the objective of measuring, managing and planning social objectives, both internally and externally, as well as in the environment.
- Increasing the importance of exports from Brazil to the United States, accelerated by the recent depreciation of the US dollar against the euro, providing the branch with greater stability.
- Contracting the innovation management of Edertek (a technology centre of the Mondragon Group), after evaluating by a careful study the local Brazilian centres alternatives.

At present, the Brazilian production plant continues in this second phase, that of the social and economic consolidation of the project.

### **7.4.3 Fagor Ederlan Brasileira best practices analysis**

#### **7.4.3.1 Study to transform into a co-operative structure**

As previously stated, the subsidiary has been managed with the intent of implementing the same criteria as at the parent co-operative. The local environment of Brazil and the Basque Country is different, and therefore an adaptation had to be made. Curiously enough, at the same time Fagor Ederlan had been also involved in new factory acquisitions (Luzuriaga Usurbil and Luzuriaga Tafalla) in the Basque Country, sharing the same environment as the parent co-operative. Once the Brazilian production plant was already operative and the co-operative had 100% of the assets in 2006, the parent co-operative coordinated with the expatriate CEO at the subsidiary decided to conduct a study to see the alternatives to transform the Brazilian production plant into a worker co-operative legal form. Probably this was influenced by the fact that similar studies were conducted at the same time in the new branches acquired by the co-operative in the Basque Country.



The study analysed the subsidiary worker commitment and their willingness to transform the subsidiary into a co-operative. Few alternatives were presented from the legal point of view; the most interesting one was that of creating a second grade co-operative, own partially by the Brazilian production plant employees and by the parent co-operative.

The study met also some difficulties in the way of transforming the subsidiary; they were especially linked to the economic dependency of the subsidiary. Nowadays the subsidiary has an important debt within the parent co-operative; as a capital-intensive sector, the investment economic amount is extremely big.

This fact might be overcome by the subsidiary local executive staff or by the subsidiary first level board of directors; but this is finding difficulties with the company social mass. The Mondragon co-operatives structure is not based on top level and white collar staff commitment, but on that of blue collars. Therefore, the new structure must incorporate the blue collars into the participation in management, profits and ownership.

Once the study was finished, the parent co-operative governing council decided to postpone the legal transformation into a worker co-operative until the moment when a broader participation in management and profits has been achieved and willingness and commitment from the whole workforce have been assured. The employee participation policy of Irizar-Brazil has been considered the subsidiary benchmark in order to inspire the next steps on employees' participation.

For the moment the experience has not yet arrived to making the subsidiary into a co-operative, but the study thereabout reflects:

- The importance of a management model that promotes overall employees participation in management and profits, transmitting parent co-operative values and culture and preparing the subsidiary for future legal transformation. The new Mondragon Group management model defined in 2007 tends specifically to this objective.
- The sense of company belonging of the subsidiary employees, coherent with the low rate of employees' turnover and absenteeism. As one of the expatriates

working at the subsidiary affirmed: “the most important issue achieved in the plant it is the sense of belonging to Fagor Ederlan found in all the employees. I consider perfectly possible to implement a worker co-operative here, and it will be only a matter of time”. Some of the local employees in the board of director just affirmed: “we are willing to become a Mondragon worker co-operative, but for the moment there are some issues to be solved, such as local employees understanding and commitment to the process and to economic implementation thereof”.

- The interest of conducting a specific study in order to identify and measure the barriers and the incentives to evolve the subsidiary legal framework, and to extend the co-operative principles in the workplace abroad.
- The importance of continuing investing in communication. Fagor Ederlan Brasileira already has an internal journal *Difundir* to be distributed among the employees in order to transmit the activities brought about. The series recently published include news such as: The day of handicapped children from an NGO project; the award of Quality at the workplace; the ISO 14001 certification granted; the day of work accidents prevention; the R10 training programme; and the results of the collective bargaining.

#### 7.4.3.2 Local environment salary conditions analysis

One of the tasks defined by the Mondragon Group while operating abroad is to have a wages policy slightly higher than that of the local environment. This policy is exactly the same as the one implemented in the parent co-operatives. Sadly not many subsidiaries have assumed this task in a formal way.

Fagor Ederlan Brasileira is one of those subsidiaries which annually conduct a specific analysis of the local environment wages scale even if they assumed that they are unable to affirm that they pay more than the market. The following aspects are the most remarkable in this best practice:

- All the employees are grouped under six profiles or categories. At the moment an employee joins the company or has been trained comes to profile one or two. As he arriving to a certain post he will be placed in profile three, with profiles four, five and six reserved for those employees that have a proven capacity and

commitment to the company. Fagor Ederlan committed itself to paying the average market wage for profile three, slightly lower for profiles one and two, and higher for the four, five and six. Therewith the company shows the special interest for increasing the employees' fidelity to the company.

- The study is conducted by an external company on an annual basis, and is done specifically for Fagor Ederlan Brasileira activity. This policy, even if it is more expensive than standard studies or in-house studies, combines the objectivity of an external company with the specific analysis of the local environment.
- There is an indicator for measuring and managing wage solidarity: the difference between the lowest and the highest salary in the company. At the end of 2005 was 1/27, and for 2006 was reduced to 1/21. This means that the highest salary is more than 20 times the lowest one. In the case of Mondragon parent co-operatives the historical ratio was 1/3 and nowadays amounts to an average of 1/6 for full time employees within the whole Mondragon Group<sup>149</sup>.
- The employee social benefits (health insurance, food and transport) are not taken into consideration at the moment of measuring the salary scale. This fact, due to the outstanding effort done by the subsidiary on social benefits, might not reflect employees' overall satisfaction. But the main objective of the study is to measure the wage policy with the purpose of paying at least the same salary as in the local environment, and not to measure employee satisfaction.

#### 7.4.3.3 Social equity (balance social)

Since 2004 Fagor Ederlan Brasileira introduced a “social equity” policy defining some social indicators that the subsidiary will measure and manage in order to assume a triple bottom line commitment. The study conducted by an external company on annual basis incorporates the following categories:

- Main data (*Base do calculo*) include total revenues (*Receita liquida*), the operational financial results (*Resultado operacional*), and the total wage costs (*Folha de pagamento bruta*).

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<sup>149</sup> For a deeper understanding see section 3.4.5 in chapter 3.

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- Social internal indicators (*Indicadores sociais internos*) include several social benefits and expenses such as: food, health, security and medicine at work, education, personal development, and profits participation.
  - Social external indicators (*Indicadores Sociais Externos*) enclose several items such as: education, culture, health, sports or hunger.
  - Nature indicators (*Indicadores Ambientais*) contain the investments assumed by the company inside and outside to reduce the environmental impact.
  - Workforce indicators (*Indicadores do Corpo Funcional*) enclose several ratios, such as the number of: employees, new employees, externalised training of employees over 45, and handicapped employees. Also the number and the executive posts assumed by women and minority groups are measured.
  - Information related to corporate citizenship. There are several indicators; the most important are: the relation between the lowest and the highest wage within the company; the number of accidents; and the criteria used to distribute the annual economic results among managers, employees, partners, third institutions, and retired employees.

The mentioned policy for social equity has been implemented only in the case of Fagor Ederlan Brasileira and has been considered as a best practice to be extended to other Mondragon Group production plants, in order to start measuring the social dimension of the projects abroad.

## FAGOR EDERLAN BRASILERIA – Social Equity - 2003-04-05 (1/2)

<b>SOCIAL EQUITY 2003 - 2004- 2005</b>	<b>2003</b>			<b>2004</b>			<b>2005</b>		
<b>1-BASE DO CALCULO</b>	valor (reais)			valor (reais)			valor (reais)		
Receita liquida (RL)	57,325,415			88,167,012			100,317,457		
Resultado operacional (RO)	3,559,760			1,027,336			5,591,949		
Folha de pagamento bruta (FPB)	8,982,932			10,626,915			12,753,328		
<b>2-INDICADORES SOCIAIS INTERNOS</b>	Valor (mil)	% PIB	% RL	Valor (mil)	% PIB	% RL	Valor (mil)	% PIB	% RL
Alimentação	521,840	6%	1%	577,908	5%	1%	683,000	5%	1%
Encargos sociais compulsorios	0	0%	0%	0	0%	0%	0	0%	0%
Previdencia privada	0	0%	0%	0	0%	0%	0	0%	0%
Saude	397,147	4%	1%	438,611	4%	0%	536,218	4%	1%
Segurança medicina no trabalho	209,360	2%	0%	282,606	3%	0%	319,561	3%	0%
Educação	21,005	0%	0%	17,298	0%	0%	36,262	0%	0%
Cultura	0	0%	0%	0	0%	0%	0	0%	0%
Capacitação e desenvolvimento profissional	80,384	1%	0%	76,985	1%	0%	89,392	1%	0%
Creches ou auxilio-creche	0	0%	0%	0	0%	0%	0	0%	0%
Participação no lucros ou resultados	219,875	2%	0%	340,355	3%	0%	344,449	3%	0%
Outros	236,766	3%	0%	247,044	2%	0%	308,855	2%	0%
Total - Indicadores sociais internos	1,686,378	19%	3%	1,980,808	19%	2%	2,317,737	18%	2%
<b>3-INDICADORES SOCIAIS EXTERNOS</b>	Valor (mil)	% PIB	% RL	Valor (mil)	% PIB	% RL	Valor (mil)	% PIB	% RL
Educação	0	0%	0%	0	0%	0%	0	0%	0%
Cultura	0	0%	0%	0	0%	0%	0	0%	0%
Saude e saneamento	0	0%	0%	0	0%	0%	0	0%	0%
Esporte	0	0%	0%	0	0%	0%	0	0%	0%
Combate a fome e segurança alimentar	0	0%	0%	0	0%	0%	0	0%	0%
Outros	29,334	1%	0%	33,895	3%	0%	70,763	1%	0%
Total das contribucoes para a sociedade	29,334	1%	0%	33,895	3%	0%	70,763	1%	0%
tributos (excluidos encargos sociais)	0	0%	0%	0	0%	0%	0	0%	0%
Total - Indicadores sociais externos	29,334	1%	0%	33,895	3%	0%	70,763	1%	0%
<b>4-INDICADORES AMBIENTAIS</b>	Valor (mil)	% PIB	% RL	Valor (mil)	% PIB	% RL	Valor (mil)	% PIB	% RL
Investimentos relacionados com a produção / opeação da empresa	13,709,068	385%	24%	9,370,188	912%	11%	8,112,718	145%	8%
Investmentos em programas e/ou projetos externos	0	0%	0%	23,000	2%	0%	107,111	2%	0%
Total dos investimentos em meio ambiente	13,709,068	385%	24%	9,393,188	914%	11%	8,219,829	147%	8%
Quanto ao estabelecimento de "metas anuais" para minimizar residuos, o consumo em geral na produção / operação e aumentar a eficacia na utilização de recursos naturais, a empresa	cumpre de 76 a 100%			cumpre de 76 a 100%			cumpre de 76 a 100%		
<b>5-INDICADORES DO CORPO FUNCIONAL</b>									
N de empregados(as) ao final do periodo	331			314			349		
N de admissoes durante o periodo	98			121			63		
N de empregados(as) tercerizados(as)	1			38			21		
N de estagiarios(as)	10			6			5		
N de empregados(as) acima de 45 anos	18			22			59		
N de mulheres que trabalham na empresa	19			23			25		
% de cargos de chefia ocupados por mulheres	0%			0%			0.5%		
N de negros(as) que trabalham na empresa	0			0			0		
% de cargos de chefia ocupados por negros(as)	0%			0%			0%		
N de portadores(as) de deficiencia ou necessidades especiais	0			0			3		

Source: Fagor Ederlan Brasileira 2007

## FAGOR EDERLAN BRASILERIA – Social Equity - 2003-04-05 (2/2)

SOCIAL EQUITY 2003 - 2004- 2005	2003			2004			2005		
<b>6-INFORMAÇÕES RELEVANTES QUANTO AO EXERCÍCIO DA CIDADANIA EMPRESARIAL</b>									
Relação entre a maior e a menor remuneração na empresa					22.31			26.817	
Número total de acidentes de trabalho					47			13	
Os projetos sociais e ambientais desenvolvidos pela empresa foram definidos por:	direção	direção e gerencias	todos empregados(as)	direção	direção e gerencias	todos empregados(as)	direção	direção e gerencias	todos empregados(as)
Os padrões de segurança e salubridade no ambiente de trabalho foram definidos por:	direção e gerencias	todos empregados(as)	todos Cipa	direção e gerencias	todos empregados(as)	todos Cipa	direção e gerencias	todos empregados(as)	todos Cipa
Quanto à liberdade sindical, ao direito de negociação coletiva e à representação interna dos(as) trabalhadores(as), a empresa:	nao se envolve	segue as normas da OIT	incentiva e segue a OIT	nao se envolve	segue as normas da OIT	incentiva e segue a OIT	nao se envolve	segue as normas da OIT	incentiva e segue a OIT
A previdencia privada contempla:	direção	direção e gerencias	todos empregados(as)	direção	direção e gerencias	todos empregados(as)	direção	direção e gerencias	todos empregados(as)
A participação dos lucros ou resultados contempla:	direção	direção e gerencias	todos empregados(as)	direção	direção e gerencias	todos empregados(as)	direção	direção e gerencias	todos empregados(as)
Na seleção dos fornecedores, os mesmos padrões éticos e de responsabilidade social e ambiental adotados pela empresa:	nao sao considerados	sao sugeridos	sao exigidos	nao sao considerados	sao sugeridos	sao exigidos	nao sao considerados	sao sugeridos	sao exigidos
Quanto à participação de empregados(as) em programas de trabalho voluntário, a empresa:	nao se envolve	apóia	organiza e incentiva	nao se envolve	apóia	organiza e incentiva	nao se envolve	apóia	organiza e incentiva
Número total de reclamações e críticas de consumidores(as):	na empresa	no Pracon	na Justicia	na empresa	no Pracon	na Justicia	na empresa	no Pracon	na Justicia
% de reclamações e críticas de consumidores(as):	na empresa	no Pracon	na Justicia	na empresa	no Pracon	na Justicia	na empresa	no Pracon	na Justicia
Valor adicionado total a distribuir (em mil R\$):	9,401,975.39			9,401,975.39			9,401,975.39		
Distribuição do Valor Adicionado (DVA):				14% Governo, 56% Colaboradores, 0% acionistas, 28% terceiros 2% retido			17% Governo, 52% Colaboradores, 0% acionistas, 30% terceiros 1% retido		
<b>7-OTRAS INFORMACIONES</b>									

Source: Fagor Ederlan Brasileira 2007

**Figure 7.51:** Fagor Ederlan Brasileira: social equity (2005)

#### 7.4.3.4 Local workers integration and inter-cooperation

Usually Mondragon co-operatives are point out as not working with the local co-operative movement in those countries where the subsidiaries have been founded. The Mondragon Group Headquarters is open to collaborate and to transmit its co-operative experience but has not defined a specific policy to work with the local co-operative movement in their production plants abroad. Needless to say that, in some cases, such as Brazil due to personal interest and professional trajectory, it does some and short contact with the local co-operative movement from the Mondragon Group delegate there.

As the current Brazil Social Economy Director (*Secretario de Economia Solidaria do Brasil*), professor Singer from the Sao Paulo University (USPI) has confirmed “Brazilian worker co-operatives do have a wide variety of structures and trajectories, some of them coming from enterprises bankruptcy, some from employees externalisation, and some others rooted in social basic needs projects”. These co-operatives reality differ from the Mondragon Group worker co-operatives structures, but still there are opportunities to work together such as in the Uniforja worker co-operative.

Fagor Ederlan Brasileira it is also the unique Mondragon production plant abroad, which has already met few times the Brazilian local co-operatives movement, and toils on potential collaborating together.

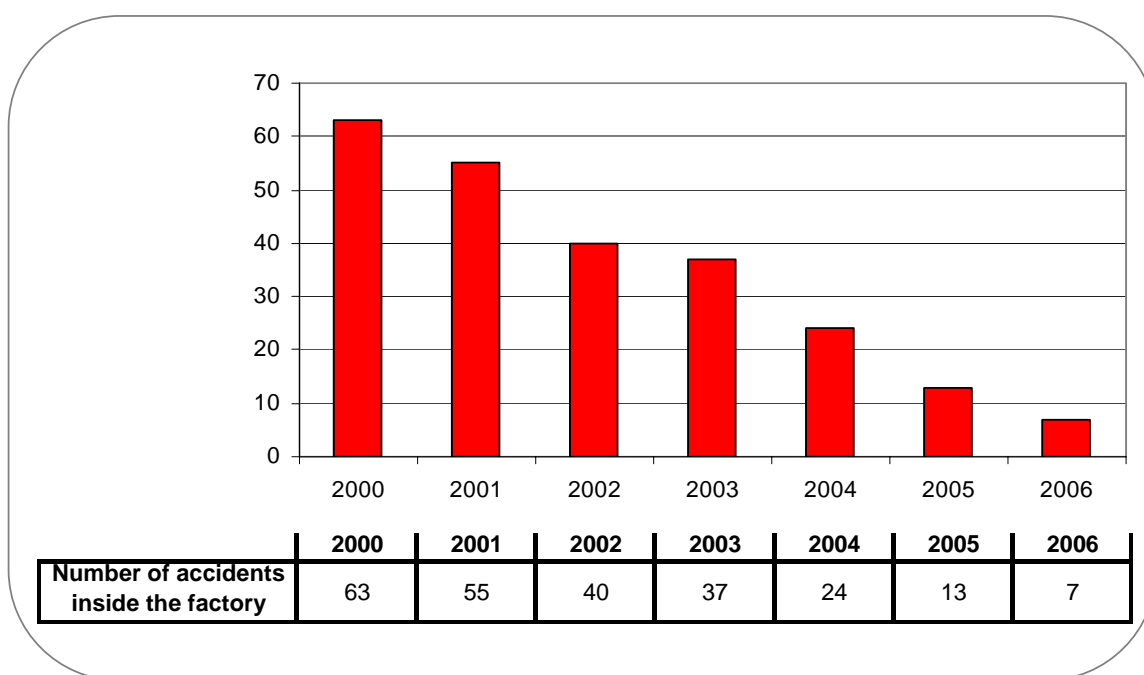
This minor experience might have some important lessons to be learned:

- Even if there is a local co-operative movement and there are worker co-operatives abroad, it is extremely difficult at the beginning to link there subsidiary implementation with the local co-operative projects.
- It is very important to study carefully the potential capacity of influence of the Mondragon Group subsidiaries on the local environment when they are at work. Both realities “local co-operative movement” and “Mondragon production plants abroad” need to learn from their own experiences and have to find potential opportunities to work together or launch new projects together.
- It is necessary to obtain the support of institutions outside the industrial co-operatives to foster the inter-cooperation capacity and to link the realities of the different countries; for instance: academic exchange programmes, co-operative management consultancy support, and inter-governmental financial funds.

#### 7.4.3.5 Employees’ health and security special policy

Once the Fagor Ederlan team assumed the management of the Brazilian factory, they implemented an especial commitment on the employees’ health and security policy; this is especially important in the case of casting production plants that imply a higher probability and severity of working accidents.

Fagor Ederlan Brasileira incorporated in 2004 a health and security department pursuing to improve the risk management. This department includes several activities such as: outdoor and indoor training programs, employees clothing policy including mandatory equipment as goggles and gloves, every single accident monitoring no matter their level (minimum, medium or severe), production line layout re-organisation and ergonomics, and a post rotary policy. In a personal interview the department manager states: “Training is the best way, not only to improve productivity, but also to improve employees’ security and to minimise the working accident risks”.



**Figure 7.52:** Fagor Ederlan Brasileira: number of accidents inside the factory (2000-06)

As shown in the previous chart, the policy has been really effective with great results until 2007, although the commitment of zero accidents has not been achieved.

#### 7.4.4 Overall conclusions and lessons learned

The most important lesson learned from Fagor Ederlan Brasileira experience is “willingness”. Their experience in Brazil reflects that if the people (members and board of directors at the parent co-operative, the local team in Brazil, and the expatriates) want, it is possible to assume in the subsidiaries the same management model implemented at the parent co-operatives. This management policy (even more now with



the implementation of the new Mondragon corporative management model) will move forward the reality of the subsidiary, thus achieving great social and economic results no matter the place and assuming people participation in management, in profits distribution, and hopefully in a very short future even ownership.

There are important issues or lessons to be learned from the case of Fagor Ederlan in Brazil:

- The economic relationship between the subsidiary and the parent co-operative is “win-win”. There is not an economic dependency that would make impossible the evolution of the subsidiary economic and social results due to a subsidiary obsequiousness to the parent co-operative. The Brazilian production plant is autonomous, but gives to the parent co-operative a global dimension and thus supports the whole company.
- The whole HR management policy, even if not paying a higher salary than the local environment, allows for a stable and faithful workforce. With a minimum people turnover the subsidiary is able to grow, and to achieve social and cultural blending with the co-operative values and principles. In other case this would be impossible.



## 7.5 CASE STUDY 5: FAGOR MASTERCOOK (POLAND)

### 7.5.1 The Fagor Electrodomésticos Group

#### 7.5.1.1 Introduction

The “Fagor Electrodomésticos” Group<sup>150</sup> is a European manufacturer of domestic appliances, and air conditioning. The company was founded in October 1956 in a small 12-person workshop, and was termed “Talleres Ulgor”; this was the first Mondragon Group co-operative to be created.

Its expansion over the past 50 years has also fulfilled a significant role in other developments, such as in the constitution of Caja Laboral in 1959, and its influence has been essential for grouping of other co-operatives (Ularco Group 1964 or Fagor Group 1986) and for the nurturing of some new co-operatives (Copreci, Fagor Industrial, Fagor Ederlan, and Fagor Arrasate). Under the umbrella of the Fagor Group<sup>151</sup>, this organisation is undoubtedly the flagship of the Mondragon Group.<sup>152</sup>

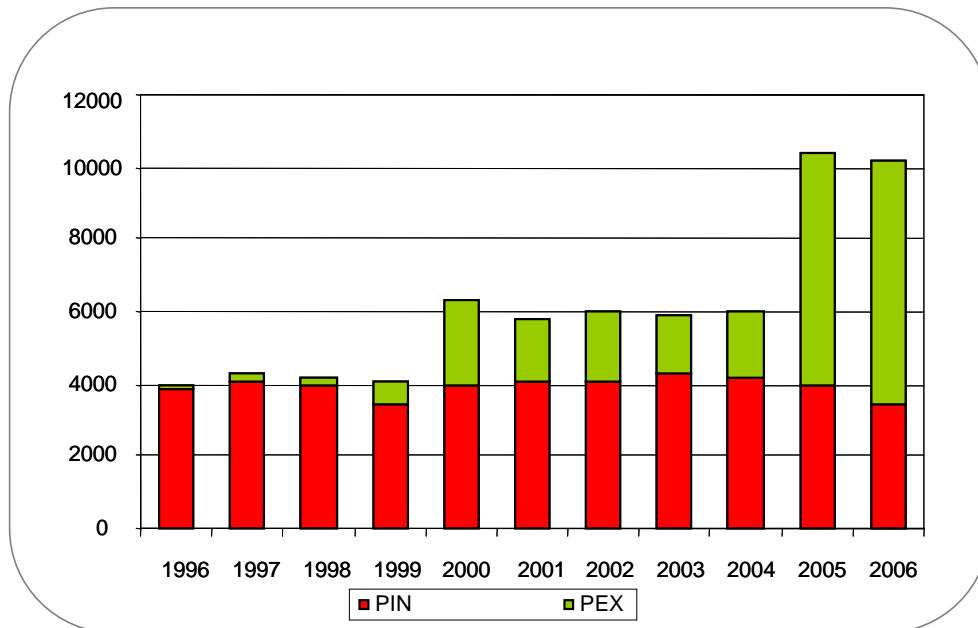
At the end of 2006 the Fagor Electrodomésticos Group had 10,173 employees; at the parent co-operative in Mondragon (Gipuzkoa-Spain) 3,397, and from these 3,223 were co-operative members. At the 10 manufacturing plants abroad 6,776 were working in Morocco, Poland, China, France and Italy.

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<sup>150</sup> On the current case study we will use indistinctly the terms “The Fagor Electrodomésticos” Group and its main brand “Fagor”.

<sup>151</sup> At the end of 2006 the Fagor Group is formed by the following co-operatives: Fagor Electrodomésticos, Fagor Arrasate, Copreci, Fagor Industrial, Fagor Automation, and Fagor Electrónica.

<sup>152</sup> A recently published paper explores this issue: A.M. ERRASTI and A. MENDIZABAL, 2007, “The impact of globalization and relocation strategies in large co-operatives: the case of the Mondragon Co-operative Fagor Electrodomésticos S.Coop” in *Co-operatives Firms in Global Markets: Incidence, viability and economic performance* (S. NOVKOVIĆ, S. and V. SENA, 2007) pp. 265-287.



**Figure 7.52:** The Fagor Electrodomésticos Group: global employment (1996-2006)

#### 7.5.1.2 The reasons behind international multi-localisation

The effects of globalisation determined for the domestic appliance sector a certain degree of change. Some of the main shifts are the following:

- A succession of cross border mergers and acquisitions, especially over the past 30 years, has given place to 70% of sector turnover, taken up by world producers (such as Electrolux, General Electric, and Whirlpool) at the end of 2006. Fagor is the seventh as regards the production volume, and accounts for 6% of the European market.
- The arrival of new competitors (LG or Haier) mainly from Asian countries (such as China, Japan and South Korea), which after growing in their domestic markets, have come to more mature and profitable markets: Europe, Canada and the United States.
- The relocation of manufacturing in countries with lower labour costs. This determines the cost reduction and the access to the foreign markets expected to be of a significant growth. In the EU this has involved a shift to approach new members such as Poland and Romania, whose labour costs are between four and six times lower than those of the Basque Country (Spain).

- In such a global and competitive market, a continuous technological innovation is extremely necessary in order to survive; and this requires promoting new products and profitable activities as well as generating skilled jobs.
- The development and concentration of a European retail sector with buying power. As a result of the sizeable volume of orders and strong negotiating position, the sector is able to influence the turnover of large manufacturers to the point of a make or break scenario. Such a situation is highly precarious for the European branded manufactures, as it allows lower cost and less known competitors (that do not necessarily possess a strong and recognised brand) to make their way – endorsed by the retailer – into the market.
- The very power and reputation of established brands leading to the outsourcing of production. That is to say, though they maintain design processes and marketing, some sector players now contract third party companies to manufacture the products on their behalf.
- The high degree of volatility in world raw material prices has lately increased by double digits per year. The ability to manage raw materials purchases in the international or derivative market leads to a boarder line significant effect on the company's economic results (aside from its productive efficiency or competitiveness).

The Fagor Electrodomésticos Group entered in Morocco, acquiring “Extra Electromenager” in 1994, and in the South American market with the 50% stake on the company “MacLean” with the objective of entering in the Argentine and Brazilian markets during the period 1999-2003. Nevertheless, at the beginning of the analysed period (1999) Fagor Electrodomésticos was essentially a local producer, focusing operations with a workforce of 4,256 persons based only in the Basque Country while maintaining its position as a market leader in Spain.

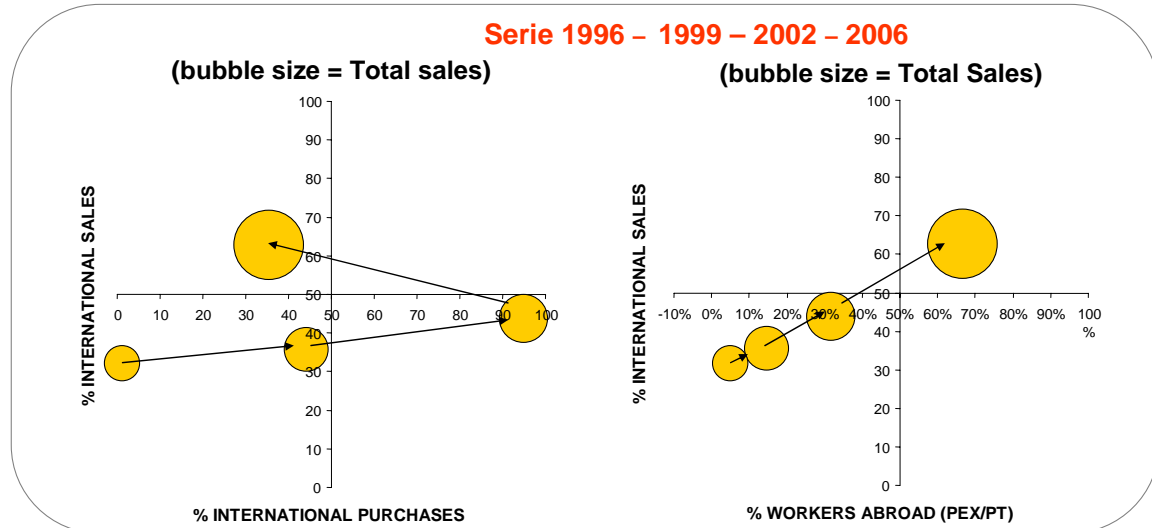
Conscious of the globalisation impact on the domestic appliance sector, the company was faced with the predicament of taking a colossal step forward to become one of the principal manufacturers in Europe by introducing a more specialised business model, or even by shifting to another sector and activity. As the Mondragon Group Vice-president

stated in 2004: “we were too small to compete in a global market, yet too large to move to another sector or activity”<sup>153</sup>.

Each option implied a critical change, one that would threaten the jobs of more than 4,000 people in the Basque Country. The decision taken opted for the first alternative: the immense challenge of transforming the co-operative into a producer that targeted not only Europe but also the whole world.

### 7.5.1.3 International activity 1999-2006

In 1996 the company had already a certain degree of international experience, having maintained an international department within the company since 1967. However, its international multi-localisation strategy was limited, for only recently in 1994 the Mohammedia plant in Morocco had been incorporated. According to the Fagor Group former CEO: “The starting point in 1997 was a company devoted to the Spanish market that sought to develop an internationalisation process, which when achieved would lead to a sales turnover of 50% in foreign markets”<sup>154</sup>.



**Figure 7.53:** The Fagor Electrodomésticos Group: international sales, purchases and employees (1996-06)

<sup>153</sup> SPRI conference on globalisation, Euskalduna Palace 2005.

<sup>154</sup> Fagor Electrodomésticos press meeting in 2006.

The process experienced through the past decade is extensive (fig.7.53), with the following points in international multi-localisation strategy as particularly important:

- As a consequence of endogenous growth in the Spanish market and on the purchase of other companies (Wrozamet in 1999 and Brandt in 2005), by the close of 2006 sales had grown by 500% to €1.7m which represents the 13% of those of the Mondragon Group industrial division.
- At the end of 2006 the company was structured into three units (Fagor in Mondragon, Fagor-Brandt in Paris, and Fagor MasterCook in Wrocław), that operated in an autonomous manner, though coordinating production plant activity under a transnational configuration.
- Purchasing has shifted from a purely local operation to one that has become internationalised, encompassing lower cost countries through its office in China, and integrating Brandt policy as well as minimising the impact of raw material prices fluctuation by marketing in a more effective way.
- The longstanding dependence on the Spanish market has been balanced with international sales increasing from 37% to 62% of total turnover. At the close of 2006 Fagor based on its solid Spanish market has become well positioned also in the French and Polish markets. At the present, access to the Chinese and Russian markets is underway.

At the end of 2006 the Fagor Electrodomésticos Group total sales reached €1,728m with a 20.4% market share in Spain, 18.2% in France, and 8.6% in Poland (Fagor, 2006).

The outlook at the end of 2006 is considerably different from the period starting point. The Fagor Electrodomésticos Group now has a European rang (as opposed to a national one), and seeks only to consolidate a leading position not only in Spain but also in France, in Poland and in Morocco, trying even to conquer new markets, especially in Russia and in China.

#### 7.5.1.4 Social and economic goal

The extensive international multi-localisation process together with the innovation strategy involves a sole objective: the maintenance of employment at the parent co-operative. According to the former CEO, “everyone knows that one of our main aims as a co-operative is the creation of jobs and wealth for our environment. We have known for some time now that to attain that aim is not enough to invest in new, efficient installations or to achieve effective management at all levels in order to guarantee the survival of our industries. In such a global and competitive market as ours it is also necessary to innovate and to promote new and profitable activities and to generate skilled jobs” (Fagor, 2006: 14).

To carry out these prospects it has been necessary to implement crucial decisions, such as the Brandt acquisition in 2005, a corporation that was as big as the parent co-operative. This step had also a reliable impact both on the general management model and on the co-operative nature of the company. At the end of 2006, 66% were employees abroad and a 33% were co-operative members.

The Brandt strategic purchase was approved at a general assembly by 83% of the co-operative members. Financially the €162.5m Brandt purchase enclosed: Fagor Electrodomésticos (27%), MCC Investment and MCC Development (18%), and external credits (55%).

The co-operative members expressed their worry about the risk of purchasing a company with 5,700 employees and therefore demanded the following conditions for their approval:

- The co-operative members’ jobs will not be reduced, for they are necessary to maintain all of them under the new global structure.
- The new Fagor Electrodomésticos Group economic losses will have the smallest financial impact for Co-operative members.
- Co-operative members will be informed periodically through the governing council about the current situation.

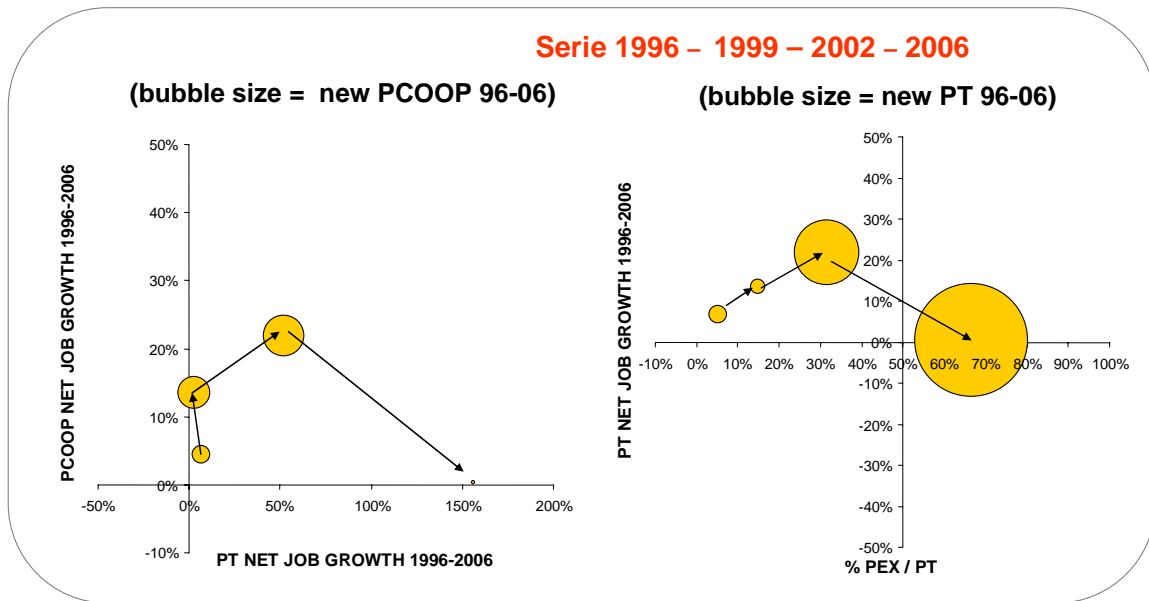


- The management board of directors will have an ethical specific commitment, not to leave the company until the operation has been successfully implemented.

The new Fagor Electrodomésticos Group structure, including Brandt, became the fifth European domestic appliances manufacturer with a European market share over 5.8% and achieving €1,752m total sales in 2006. The total workforce numbers were over 10,000 with 16 production plants working in six countries (four in Europe, one in Morocco and one in China); their sales commercial subsidiaries were spread in more than 100 countries, including also the following brands: Fagor, Edesa, Aspes, MasterCook, Brandt, DeDietrich, Thomson, Vedette, Ocean y SanGiorgio, Sauter and Samet.

Despite the existing limitations, Fagor has tried to implement its business model and co-operative operational methods at any place and to incorporate its own business culture. This implies the inclusion of two worker representatives on the board of directors at Fagor MasterCook, and also the present campaign to rationalise a new structure by safeguarding jobs after the Brandt acquisition.

At the end of 2006 the company had been successful in maintaining the same amount of jobs at the parent co-operative as that of a decade before from 1996, simultaneously progressing towards jobs that provided a greater added value (fig. 7.54). At the same time and until now Fagor has assumed the commitment with employees worldwide, to maintain in general terms the amount of people working at those companies acquired abroad (Wrozamet and Brandt).



**Figure 7.54:** The Fagor Electrodomésticos Group: parent co-operative vs. employment abroad (1996-06)

Since 1996 sales have increased by 270%, with the international proportion of this amount reaching market share as a result of horizontal integration. The added value and profitability per employee and partner rose substantially, although the investments and the associated finance also reached significantly high volumes without precedent at the worker co-operative (fig. 7.55).

	1996	1999	2002	2006
<b>PT</b>	4,256	4,082	6,033	10,173
<b>PEX</b>	178	606	1,909	6,776
<b>% PEX / PT</b>	4.18%	14.85%	31.64%	66.61%
<b>TOTAL SALES</b>	550,449	721,196	899,555	1,752,116
<b>% INTER SALES</b>	33.74%	35.51%	43.63%	62.74%

**Figure 7.55:** The Fagor Electrodomésticos Group: global employment and sales growth (1996-06)

At the end of 2006 the Fagor Electrodomésticos Group has an international dimension and has started to develop global synergies; it has also designed and started to implement a Strategic Plan in keeping with the Group new reality. As the previous general manager states: "Now what we have to do is what we do best: work for growth, create wealth and jobs, and achieve success in all our projects". (Fagor, 2006: 16)

## 7.5.2 Fagor MasterCook subsidiary understanding

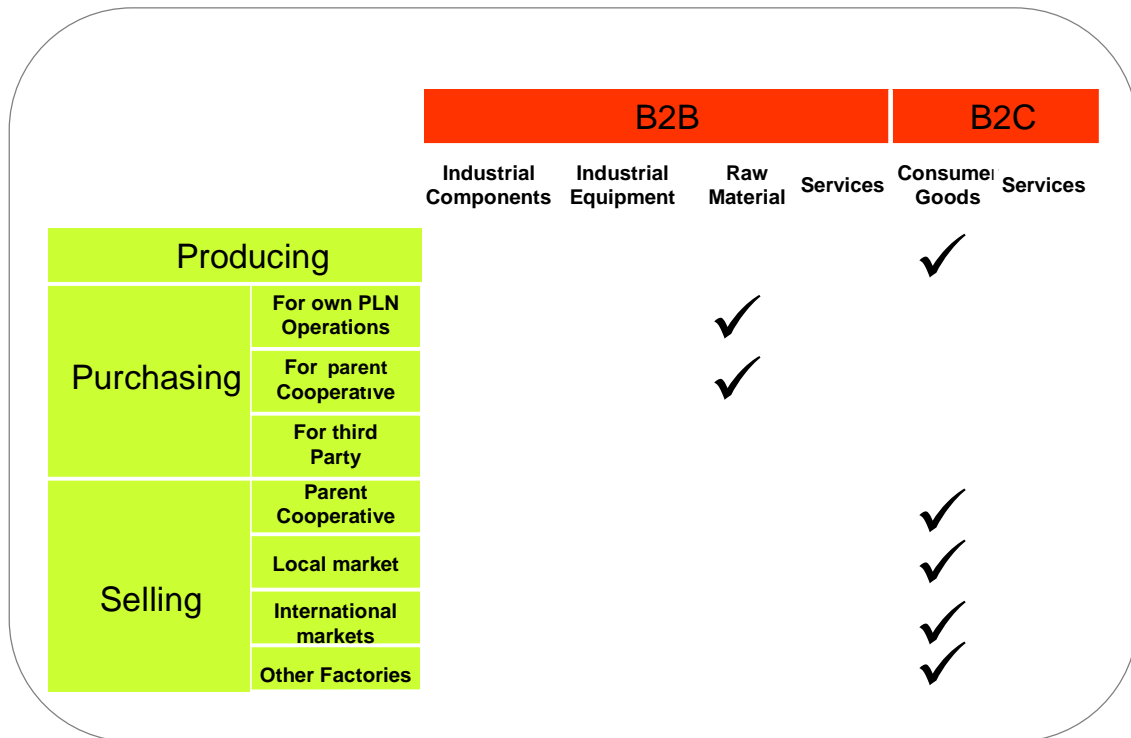
### 7.5.2.1 Background and current situation

The Fagor Electrodomésticos Group has got a sales representative in Poland since the late-1980s. At the end of 1999, it started to produce through FDI in Wrozamet, a factory of 1700 employees. At the end of 2006 the electric domestic appliances factory produced 895.000 units with a workforce of 2,000 employees. Total sales reached €140m, with 40% exports.

In 2005 a new oven production line became operational, followed in 2006 by a new washing machine line similar to the one at Fagor Brandt in France.

In the Polish market for domestic appliances as a whole the Fagor Electrodomésticos Group brands (with production of cookers, washing machines, cooling, ovens and cooker hoods) already account for 13.5% in units and 9.3% in value (June 2007).

Fagor MasterCook is the most important production plant of the Mondragon Group operating in East Central Europe, and has served as a reference for other Mondragon co-operatives that have started operations in the region. Since Brandt entrance in 2005 and under the new global organisation, Fagor MasterCook has become one of the key components of the Fagor Electrodomésticos Group management.



**Figure 7.56:** Fagor MasterCook: production plant activity

#### 7.5.2.2 History and motivation

In 1999 the Fagor Electrodomésticos Group was one of the first domestic appliances manufacturers to gain a strategic position in the Polish market. As a result of the Polish privatisation process Fagor was the foreign company selected on a public auction, and acquired 76% of Wrozamet, a local producer of ovens and cookers. During the last decade almost all the domestic appliance manufacturers (Electrolux, Merloni, Whirlpool and LG) have started operations in Poland, transforming Wrocław into a strategically significant nucleus for production of the goods in Europe<sup>155</sup>.

The region combines the following important characteristics:

- The Polish domestic market (at the end of 2006 with 38m inhabitants) boasted an annual 10m units that included cooking, washing, dishwasher and cooling appliances with an annual growth rate over 30%. According to the current Fagor Electrodomésticos general manager, the “trajectory and strategy followed on the Spanish market over the last 50 years allowed Fagor to foresee the same opportunity on the Polish market in the late 1990s”.

<sup>155</sup> For a deeper understanding of the region as a strategic location, see section 5.5.2.

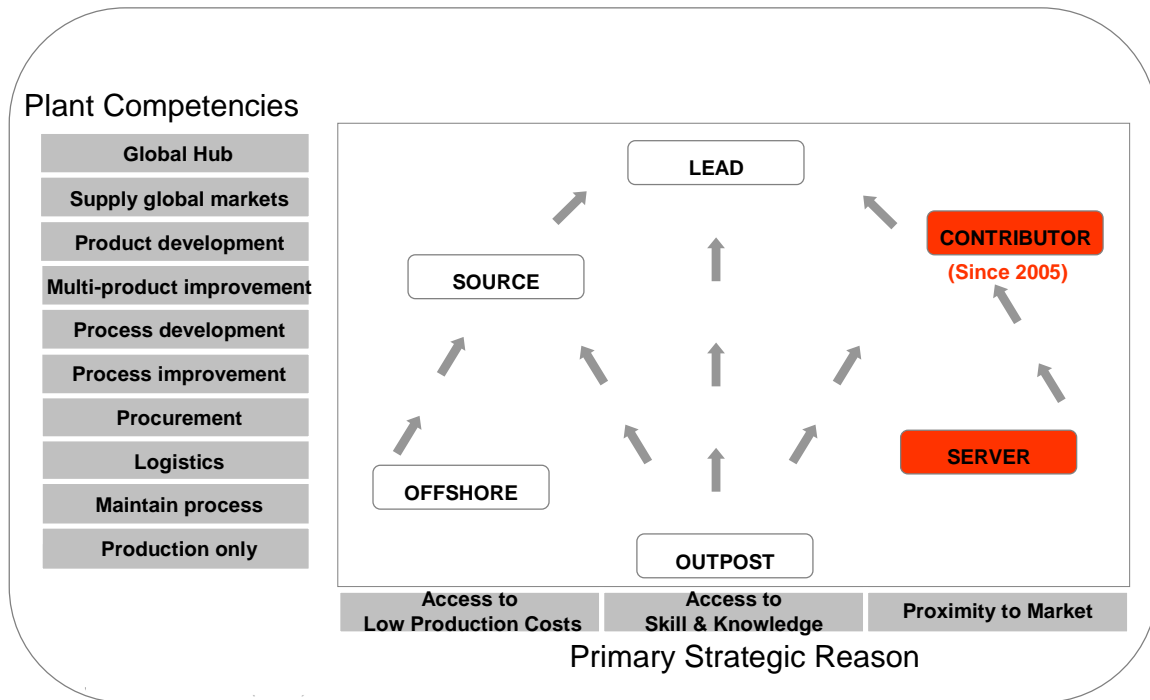
- A geo-strategic position as a server for the more highly priced Western Europe (EU15), and the highest market growth expectations in East Central Europe (EU27)<sup>156</sup>.
- A low cost production location in Europe, that includes not only transport and hourly costs that are six times cheaper than Mondragon costs, but also tax and investment preferable conditions (due to the local government SEZ policy). Although Polish costs increased 11% against 6% in the Basque Country in 2006, huge differences remain.

The Fagor MasterCook former CEO (1999-2005) affirmed that “having a production unit in East Central Europe was crucial for any European domestic appliance manufacturer” (Irizar, 2006: 198).

The Wrozamet privatisation was an appealing opportunity for the Fagor Electrodomésticos strategy (fig.7.57); even though its bid was not the highest, the company commitment to the factory workforce was highly regarded by the employees. The Fagor offer included two positions in the board of directors for trade union representatives; and the investment came from Fagor Electrodomésticos S.Coop (41%), MCC Investments (41%) and MCC Development (18%). The polish factory during the communist period was not technologically prepared, nor there was a management policy based on productivity and quality standards. At the time it was a great challenge for Fagor managers, due to a lack of experience in dealing with a factory abroad with over 1,500 employees.

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<sup>156</sup> Malta and Cyprus are in the EU 27, but they are not in East Central Europe.



**Figure 7.57:** Fagor MasterCook: production plant original motivation

Since 1999 many great strategic steps have taken place in the domestic appliance manufacturing sector and in the Fagor Electrodomésticos Group, with this having a significant influence on the Polish factory. Two stages can be identified: 1999-2005, and the period after 2005.

Fagor MasterCook activity during the period 1999-2005:

- A huge transformation took place in the Polish factory organisation with the gradual implementation of total quality standards. Consequently, the productivity was increased, though the workforce reduced. It was very difficult to implement European quality standards and acceptable productivity ratios in an oversized factory. The factory workforce, from 1,700 employees in 1999, reached 1,207 at the end of 2003.
- In 2003 three new production lines (ovens, gas hobs, and refrigerators) were opened, having at the end of 2004 a capacity to produce 140,000 ovens, 150,000 gas cookers, and 160,000 refrigerators.
- All the domestic appliance manufacturers opened factories in Poland or in the neighbour countries of East Central Europe: the Czech Republic, the Slovak Republic, and even as far as Romania, to improve their European production costs and to achieve market share in Poland. This arrival of foreign MNEs had

the following negative influences on Fagor Electrodomésticos and Fagor MasterCook:

- A low wage tendency to the bottom took place in Europe, threatening in an even more significant way the Fagor Electrodomésticos strategic production centre in Mondragon.<sup>157</sup>
- The factories of European and Far-Eastern companies operating in East Central Europe competed aggressively in the Polish markets and in neighbouring countries, thus challenging the maintenance of Fagor MasterCook market share.
- A technology transfer process took place at the time: Though contrary to what might be expected, this was not a specific objective in Fagor strategy. The Polish factory started incorporating to the production line those low value products that could not be produced profitably in Mondragon. These included cooling units, and this caused in 2004 to relocate a brand new production line from in Mondragon to Wrocław.

During this period, Fagor MasterCook was conceived as an appendix unit to Fagor Electrodomésticos (Mondragon). At the Polish subsidiary lacks its own operations strategy, the economic, technological and management aspects are dependant on the parent co-operative.

Due to the takeover of Brandt in 2005, the whole Fagor Electrodomésticos Group structure was modified, and this offered a new phase in Fagor MasterCook integration and role. The current Fagor Electrodomésticos Group CEO stated: “This year, and as a result of acquiring Brandt, the way of thinking we usually apply will have to vary to some extent, especially as the framework is different. The current picture is quite different: we are now a European group which, on the firm basis of the Spanish, French and Polish markets, seeks both to consolidate its leading position in these countries and conquer new markets.” (Fagor, 2006: 15)

The main activities during this phase were:

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<sup>157</sup> Other Spanish domestic appliance factories, such as EDB (Moulinex), Electrolux, and BSH (Balay) have either recently closed down or reduced their workforces significantly.

- The Polish branch became one of the three main units, incorporating a greater self management and its own business strategy.
- Development of an autonomous purchasing activity, incorporating not only other Fagor Electrodomésticos Group units (Fagor Mondragon, and Fagor Brandt) but also a remarkable activity regarding Polish and international suppliers.
- Creation of a group production centre for lower value added products (FS refrigerators and ovens) which cannot be produced profitably at Fagor Mondragon or in Fagor Brandt.
- In order to compete in a market where almost all the European manufactures (BSH, Electrolux, Whirlpool, and Merloni) operate, Fagor MasterCook has incorporated a new washing machine (top-loader) production line, developed by a multi-cultural team (from the Basque Country in Spain, France, and Poland) to work in the new project that will mainly supply the Polish and East Central European market.
- For the first time in the Mondragon Group, a co-operative has incorporated another co-operative as an in-house supplier. Fagor MasterCook washing machine production line has introduced the Tajo branch in Wrocław, “Tabiplast” with 20 people working at the end of 2006.

As a result of this new role of Fagor MasterCook, upon closing the year 2006, the workforce reached 2,003 people.

#### 7.5.2.3 Employment analysis

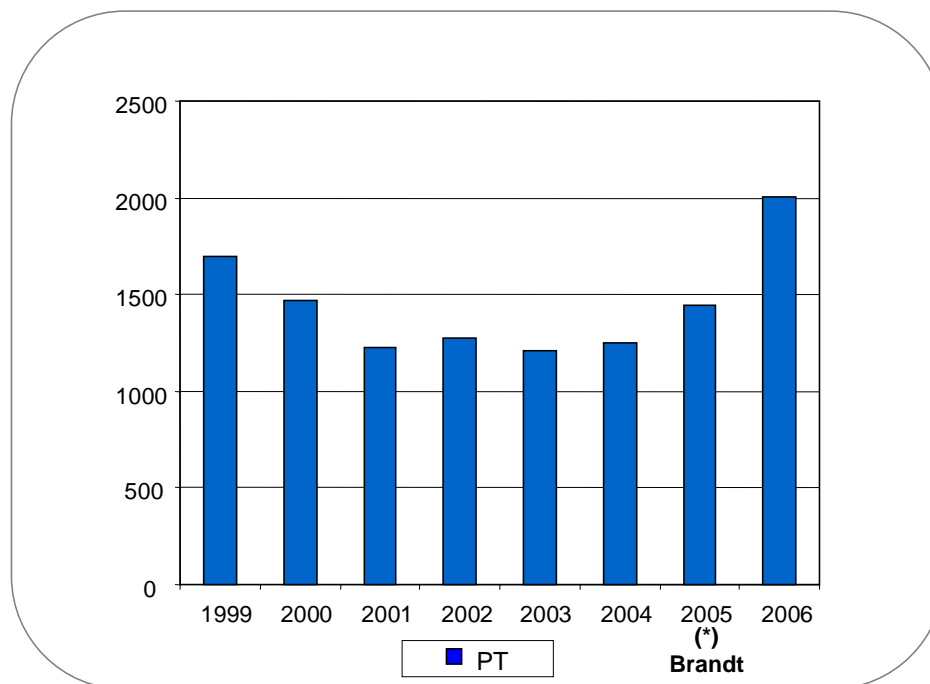
People management is extremely important when operating in East Central European countries. Especially in Wrocław, it is a process that encompasses numerous challenges and difficulties due to the large amount of MNE factories in the region. Fagor MasterCook, as stated above, has taken on a management model similar to that of the main factory in Mondragon.

Applying production management techniques similar to those used at the parent co-operative in Mondragon caused a significant impact on the Wrozamet management, when the Fagor Electrodomésticos Group assumed the factory management control. The



director of human resources affirms that: “In 1999 50% of the employees were white collar and 50% blue collar; it is said that for every employee in the production line we had a supervisor or indirect employee. At the end of 2006, 80% are blue collar and 20% white collar”. The employee organisational structure improvements resulted in a reduction of the factory personnel, avoiding the oversized and bureaucratic workforce of the public Polish factory and the lack of productivity. During the last decade Poland has experienced radical change in people management policies; nowadays, European models such as competences management are already in place and include incentives, employees’ participation, and teamwork policies.

At the end of December 1999 the factory had 1,700 employees; at the end of 2,003 this had been reduced to 1,207 with a similar total sales volume. According to the present CEO, “we stated in 1999 that a personnel reduction was needed to achieve reasonable ratios of productivity. As the factory productive structure becomes healthier, we will be able to increase the company workforce based on sales growth”.



**Figure 7.58:** Fagor MasterCook: employment growth (1999-2006)

Since 2003 Fagor MasterCook personnel grew rapidly, reaching 2,000 employees at the end of 2006. In the last four years, the size of the workforce has been optimised to fit the various assembly lines (three opened since 2003) (fig. 7.58). This gradual increase has been paralleled by a dramatic increase in the productivity of the workers. With a

similar amount of employees, in 1998 the factory was producing washing machines with €64m total sales; in 2006 it was producing not only washing machines, but also cooling units, ovens, hoods and gas cookers with €140m total sales.

One of the greatest challenges for Fagor MasterCook, as well as for other Mondragon subsidiaries abroad, is the stability of its workforce. The biggest issue involved in nurturing employee loyalty has not to compete with other production factories, but with the well paid and temporary jobs of the European construction sector and with Polish migration to other countries (the United Kingdom and Ireland) and cities (Chicago) where they earn much higher salaries<sup>158</sup>.

According to the Fagor MasterCook HR department, at the end of 2006 the monthly white collars turnover was an average of 10 people (2.5% monthly); in the blue collar workforce, the turnover was under control. Until 2006 the figure was extremely low with an annual figure of 10%. Nevertheless, there are specific profiles that recently have become difficult to find in the market, due to the large amount of MNEs landing in Lower Silesia. Therefore, Fagor MasterCook has even implemented a policy, that allows certain employees to have a break during the summer time (to be able to travel to the United Kingdom to work in the construction sector for three months) and then to join the factory again.

Fagor MasterCook conducts a specific study to measure salary scale behaviour compared with the local market. Due to the historical trajectory of the factory, during the last six to eight years it has maintained an annual fix salary growth for everyone. As a result, blue collar average wage are at the same level as in the local market; regarding white collar, there might be even a lower average in the local market. This fact, that has been strongly influenced by trade union negotiation, focused mainly on blue collar satisfaction, justifies that turnover is extremely low (10% annually), while white collar is significantly high (30% annually).

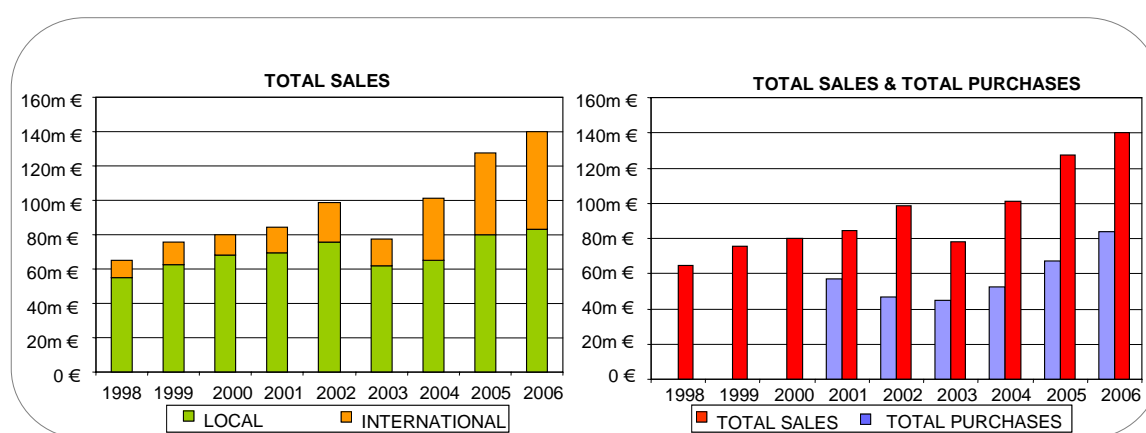
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<sup>158</sup> “Around 750,000 Poles have migrated to the United Kingdom since 1989” (The Economist, December Vol. 377, No. 8456, 10. December 2005, “The Brain Drain Cycle”, pp. 33-34)

Fagor MasterCook HR policy has been strongly modified, owing to Fagor Electrodomésticos Group changes in organisational structure, with an autonomous management policy at Fagor MasterCook implemented in 2005 for the first time.

#### 7.5.2.4 Economic performance

The evolution of the Fagor MasterCook structure is aligned with market share growth in Poland and in the East Central European countries. The original strategic commercial vision, that found successful opportunities in the Polish market, as those for Fagor in Spain during the last 50 years, has been until now fully implemented (fig.7.59).



**Figure 7.59:** Fagor MasterCook: sales and purchases (1998-2006)

Fagor MasterCook total sales grew 120% since 1999:

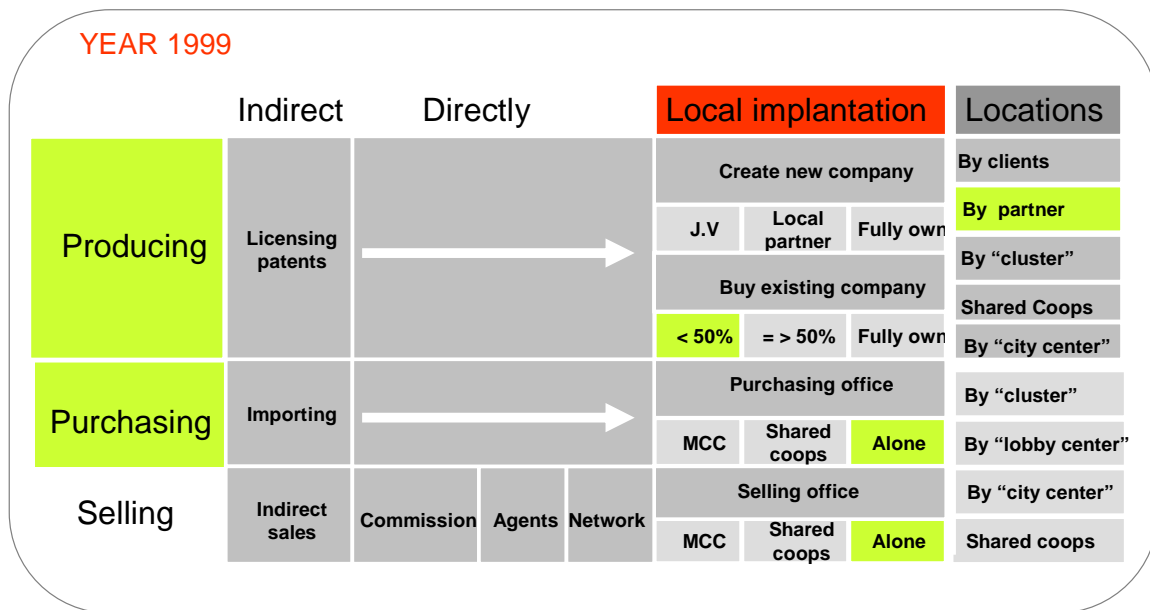
- The total sales in the local market increased from €55m in 1999 to €83m in 2006.
- The total sales evolution in the foreign market rose from €10m in 1999 to €57m in 2006.

Another point worth noting is the relationship between the parent co-operative and the Polish subsidiary.

#### 7.5.2.5 Implementation process

The process of establishing Fagor MasterCook can be divided into the following phases:

- The first phase, from 1999 to 2003, which can be identified as “the Wrozamet Phase”, when the Polish subsidiary operated as an appendix to the parent co-operative in Mondragon.



**Figure 7.60:** Fagor MasterCook: subsidiary implementation process (1999)

- The second phase, from 2003 to 2005, is the period when the new production lines were opened. An oven production line for 140,000 units, a refrigerator line for 160,000 units and a line for 150,000 ovens.
- The third phase started in 2005 with the new organisational structure at the Fagor Electrodomésticos Group, promoting Fagor MasterCook autonomy, and so became one of the three main units of the group, including the new production line for washing machine (top-loaders and front-loaders). This new line, which in the coming future might reach up to 2m washing machines a year, has been the result of the previously mentioned multicultural team, and includes two in-house suppliers (one is Tabiplast, a Mondragon co-operative branch in Poland).

### 7.5.3 Fagor MasterCook best practices analysis

Fagor MasterCook analysis might include several best practices. The current case study includes some of the most important, including those based on their co-operative ways of management under a conventional company legal framework.

#### 7.5.3.1 Employee representative participation in the production plant board of directors

The Fagor Electrodomésticos Group was selected as the foreign partner to be incorporated during the Wrozamet privatisation process, based on the employee commitment. Other domestic appliance manufacturers were behind the privatisation operation, and some of them even presented a higher bid; however, employees and the representative of the factory trade unions encouraged the Polish government to select the Mondragon co-operative as a result of the worker commitment policy.

The Fagor bid included two positions in the board for worker representatives. The Polish Government and the trade unions were extremely surprised; however, according to Fagor, managers were used to accomplish such a policy among the parent worker co-operative. Nevertheless the Polish factory was exceptionally different from the parent co-operative, as the current general manager states: “It has been a long journey, for we were not accustomed to managing non-co-operative legal forms abroad, as this was a learning process for us. Additionally, trade unions representatives were not familiar with a co-manager role; for them this has been also a learning process, not only at the technical level for understanding financial circumstances and business strategies, but also regarding their function and responsibilities as members of the board of directors”.

The two worker members of the board considered that it has been a positive experience for the company financial and social stability, especially as regards the commitment to the blue collar needs. Until 2006 the annual salary increase was a fixed quantity for all employees; but as a HR manager explained, some blue collar workers who had 1,000 Polish zloty (PLN) as monthly salary have seen their wage increased to 1,600 PLN, with an annual fix increase of 100 PLN. At the same time, some white collar workers who started as managers with 3,000 PLN at the end of 2006 saw their salary increased to

3,600 PLN. As a result of this policy, while comparing the salary with the local market, white collar is definitely below the market, and this justifies the 30% employee turnover at white collar level.

Among the managers who are co-operative members and work at Fagor MasterCook, contrasting opinions can be seen. In some cases, the role played by the trade union representatives is considered a restraint to factory management improvement and to the strategic positive evolution. They are usually not seen as supporters or co-partners of the factory management, but rather as people with whom it is necessary to be constantly negotiating and in some cases having a painstaking time with them, whether this involves important decisions or minor bureaucratic procedures. According to the factory managers, usually the union representatives lack a vision of the future and are fixed in their past mindset.

Nevertheless, looking from a bright perspective, this difficulty among managers and employee representatives could be considered a healthy policy. As the Fagor Electrodomésticos Group general manager states: “We consider the policy of having employee representatives in the board of directors a positive and successful experience”. Such a policy is then, according to the manager, a unique strategy to be implemented by worker co-operatives: “Any company might evolve on employee participation: on information, profits, team self-management or even equity; however, a non-co-operative company will never have an interest for granting employees participation in the board of directors. Therefore, this singular policy of the worker co-operatives has to be explored to the full”.

#### 7.5.3.2 Global business strategy and transnational organisational structure in place

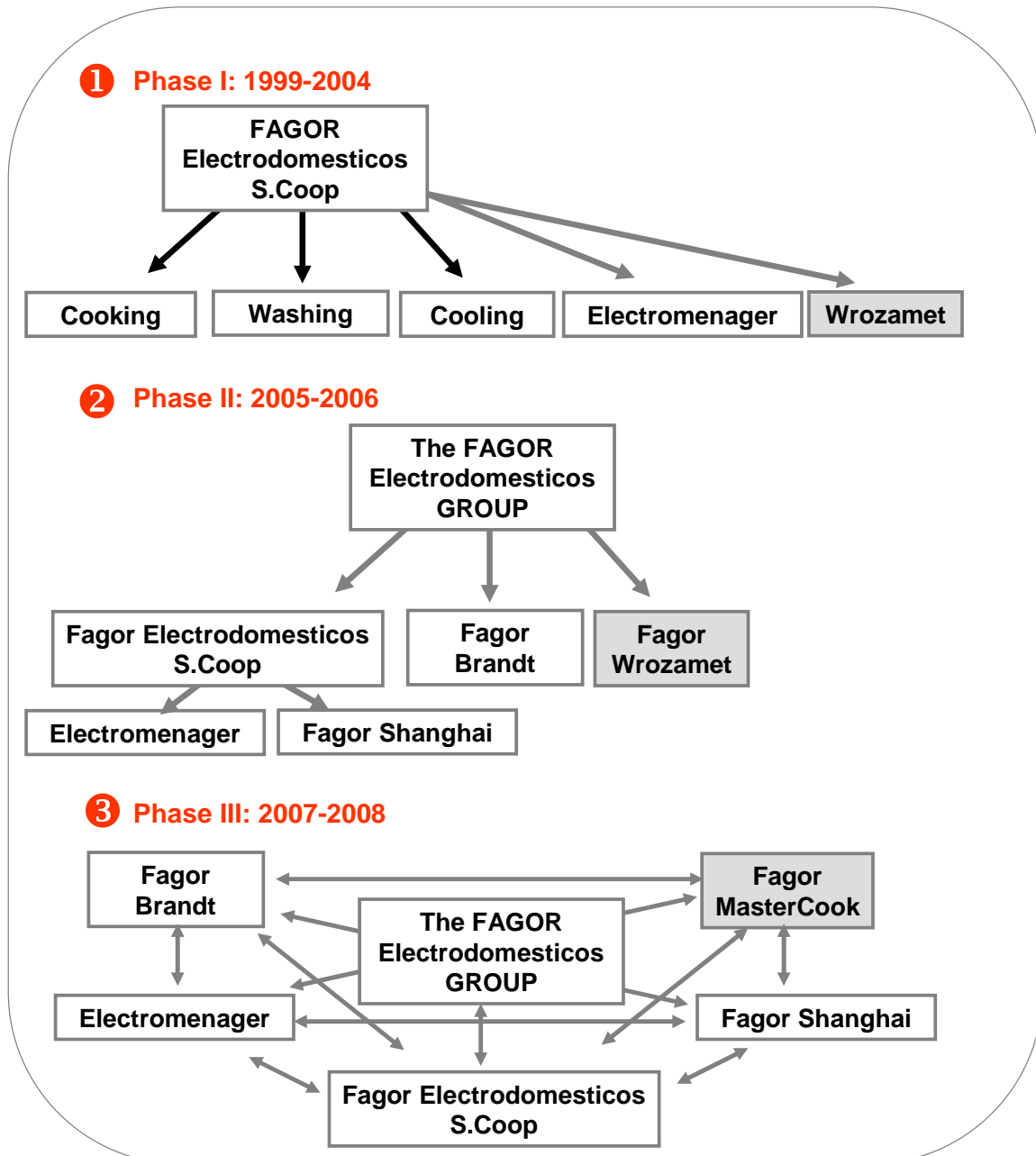
The organisational structure transformation process experienced by the Fagor Electrodomésticos Group has been outstanding. It has not been the result of a voluntary approach, but a necessity as a result of international business strategy.

The incorporation of Fagor Electromanager in Morocco in 1995, the incorporation in 1999 of Wrozamet in Poland, the South American market strategy under a Fagor MacLean project in Argentina and / or the mini-domestic appliances production through

a joint venture in China in 2001, were the first international multi-localisation steps under the Fagor Electrodomésticos Group international strategy.

Although these international initiatives, started during the period 1999 and 2004, were important in the global structure, the Fagor Electrodomésticos Group international sales weight was 35.51% in 1999 and 40.38% at the end of 2004. This gradual international process broke the record in 2005 with the Fagor Brandt acquisition, which resulted in a weight of international sales of 56.83%. Consequently, the weight of the international workforce experienced radical change during the period: 14.85% in 1999, 30.99% in 2004, 61.96% in 2005, and 66.61% in 2006.

The indispensability of a structural change on the Fagor Electrodomésticos Group global organisation, caused by the purchase of Brandt, could be understood by analysing Fagor MasterCook activity and role.



**Figure 7.61:** The Fagor Electrodomésticos Group: organizational structure (1999-2008)

The global re-organisation of the Group structure modified the opportunities and capacities of the Polish branch. At the end of 2007, the process was ongoing, though since 2005 many aspects have been modified at Fagor MasterCook (fig. 7.61). The new opportunities explored as a result of the new global structure management strategy are the following:

- A common inter-group transfer price policy has been defined. Any product sold by the Polish branch to other branches or to the parent co-operative is calculated



as production cost plus 30% of margin. This initiative involves two main impacts:

- The parent company financial dependency, where the internal price policy will defend and benefit the parent co-operative activity, is no longer valid. Every unit has to be self-dependant, and is forced to increase its competitiveness with external customers and internal clients.
  - Every production unit among the three main companies (Fagor-Mondragon, Fagor-Brandt, and Fagor-MasterCook) specialises on products that can provide a greater competitive advantage. As a result, in 2006 Fagor-MasterCook opened a new top-loader washing machine factory; in addition, Fagor-Mondragon launched 12 new projects, based on innovation investments.
  - Global company profits were increased, even though some units had smaller margins, as global competitiveness also increased. The general manager explained with this example: “Fagor Brandt, instead of selling to a UK customer a product made in France with a 40% margin, will sell a product with a 30% margin that has been bought from Fagor Mondragon with a 30% margin”. The whole group margin will be almost 60% instead of 40% and will encourage each unit to be competitive enough to have internal purchases from other units.
- New autonomous units have been created, with Fagor MasterCook organising them under a global network. The whole structure is coordinated, so as to increase its own self-capacity. Prior to the 2005 structural change the Polish subsidiary did not have either a purchasing or a HR self-dependant department. Therefore, the purchases and the employees’ management strategy were defined at the parent co-operative with a different perspective from those at the subsidiary, and no wonder that this could have led sometimes to a misunderstanding.

Consequently, Fagor MasterCook operations underwent radical change from 2005:

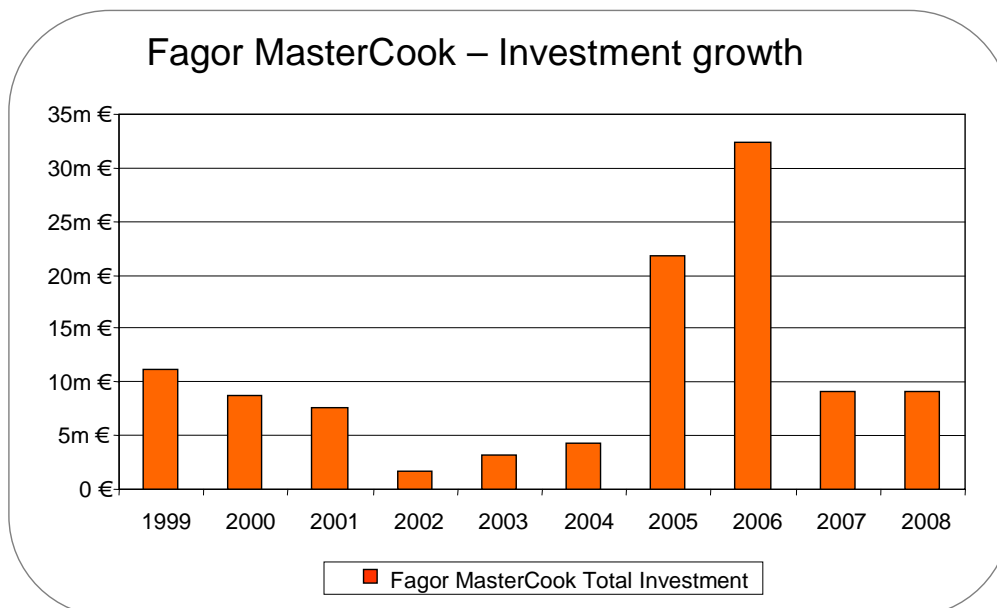
- The production capacity had a major growth, not only in terms of the amount of total units produced, but also in the diversity of products made at the Polish branch.

(thousand units)

PRODUCTS	2000	2001	2002	2003	2004	2005	2006	2007	2008
FS Cookers	400	400	400	400	400	400	390	380	375
BI Hobs	50	50	50	50	125	150	180	225	275
BI Ovens	-	-	-	-	-	20	50	65	75
Wash Machines Front	-	-	20	50	50	35	30	50	350
Wash Machines Top	-	-	-	-	-	-	110	330	430
Cooling TT	-	-	-	-	20	50	30	-	-
Cooling Combi	-	-	-	-	-	50	105	110	115
<b>TOTAL units</b>	<b>450</b>	<b>450</b>	<b>470</b>	<b>500</b>	<b>595</b>	<b>705</b>	<b>895</b>	<b>1,160</b>	<b>1,620</b>

**Figure 7.63:** Fagor MasterCook: production evolution (2000-2008)

- The amount of total purchases from 1999 until 2004 did not increase (€50m.); but from that time on and until 2006 due to the new global structure the 60% growth reached €83m.
- The amount of total sales reflected the same reality: during 1999-2004 it did not increase, but since the beginning of 2005 and until the end of 2006 it grew a 28%.
- The important growth regarding the international sales underwent radical change during the period: 14.51% in 2000, 20.36% in 2003, 37.25% in 2005, and 40.69% in 2006.
- The Fagor MasterCook local investments evolution during the period reflects a top record in 2006 with €32.22m coming from €4.13m in 2004 and €11.21m in 1999.



**Figure 7.64:** Fagor MasterCook: investment evolution (1999-2008)

### 7.5.3.3 Other best practices

#### **Multi-cultural teams & international professional careers policy**

The Fagor Electrodomésticos Group, as part of its new organisational structure, defined a multi-cultural team development policy. This policy had an impact at two levels:

- An international and inter-factory professional career has been implemented, so that in the Polish factories employees could be found from Fagor Mondragon and from Fagor Brandt. This policy facilitates knowledge transfer among multi-cultural employees, so also between the employee global dimensional understanding and the entire company learning process.

Some examples: The former Fagor Brandt CEO had previously worked at Fagor Electromanager in Morocco and at Fagor MasterCook in Poland. Similarly the former Fagor MasterCook CEO was previously working at a Fagor MacLean project in Argentina.

Another example is the washing machine factory built in 2006 and developed by the already known international and multi-cultural team made up of French, Polish and Spanish employees.

- New international coordination teams have been created. For the moment (2008) an international purchasing unit coordinates the local units self-management teams (Fagor-Mondragon, Fagor-Brandt, Fagor-Wrozamet, and Fagor-China), thus strengthening the individual capacity and consequently the global competitiveness.

This remains an ongoing process at the time of writing (January 2008), and continues to be a field requiring a thorough study in order to set free all the potential synergies present among the group different international units.

#### **Local environment salary conditions analysis**

Fagor MasterCook is one of the few international branches which include a specific local environment wages study. The HR department takes into account in factory salary policy two references from the local environment:

- A standard study conducted by an external consultancy of wages throughout Poland, and specifically in the Wrocław area. This study is conducted on an annual basis and includes MNEs and locally owned production plants.
- A study conducted annually for Fagor MasterCook by an external service provider, examining Polish production plants' wages paid in the immediate environment.

These studies have been of great use in identifying in those jobs the positive or negative wage differences. As a whole, it cannot be affirmed that Fagor MasterCook paid either higher or smaller wages than organisations in the local environment. What can be said is that Fagor MasterCook wage differences between blue collar and white collar workers is smaller than in the local environment (MNEs and Polish-owned companies). This is a policy fostered by employee representatives in the board of directors, and consistent with Mondragon co-operative wages solidarity principles.

#### **7.5.4 Overall conclusions and lessons learned**

Examination of Fagor MasterCook activity in Poland provides an opportunity to consider certain key factors, featured in Fagor Electrodomésticos Group international strategy during 1999-2006. No doubt that the most important aspect is the achievement of an international dimension driven by market share in local markets.

Due to the peculiarities of the domestic appliance sector, and the fact that Fagor Electrodomésticos S.Coop is the largest worker co-operative of the Mondragon co-operative experience, appears clearly that here an international re-active strategy is taken place instead of an international pro-active one. Such a re-active and defensive strategy has forced the Group to assume international purchases with an important impact on the whole structure; Fagor-Brandt was a key point in the Fagor Electrodomésticos Group multi-localisation strategy.

The Fagor-MasterCook case study reflects both the opportunities identified under the new global strategy and the particular approach assumed by the Polish production plant, including the main management policies, consistent with the new global dimension and the co-operative principles.

At the end of 2007, the Fagor MasterCook and the Fagor Electrodomésticos global strategies remained a process of integration, but the study of the next steps should be carefully pursued as one of particular relevance; this would stiffen the synergies running through the local and the global dimension of the company.



## 7.6 CASE STUDY 6: MONDRAGON INTERNATIONAL CLUSTERS

### 7.6.1 Introduction

The Mondragon co-operatives history is that of a group based on geographically proximity of the co-operatives themselves, and on inter-cooperation among them. Mondragon and the Deba Valley; while compared to Emilia Romana (Becattini, 1990), it has been identified as an Industrial District.

The diversity of sectors, markets and technologies among Mondragon co-operatives can be attributed to the strategies followed by Grupo Caja Laboral back in the 1970s and 80s. In 1991 the Mondragon Group's industrial divisions were re-structured according to sectors, in order to enhance the possibilities thereof.

The Mondragon Group's new structure, organised around economic sectors, was coherent with the clustering strategy implemented in the Basque Country and based on the recommendations made by Professor Michael Porter from Harvard University. Today the Mondragon industrial co-operatives are not only divided into 12 industrial divisions (see Figure 3.9), but are also active members of the regional industrial clusters, such as ACICAE (automotive) or GAIA (telecommunication). It can be said that both strategies have been of great success.

The having of a global dimension is a requirement for most of the Mondragon co-operatives. Increasingly they are opening production plants abroad in countries and regions that have a similar series of challenges and opportunities<sup>159</sup>. As a result nearly all the Mondragon projects abroad are dealing with virtually the same series of problems: branding and acquiring a new local customer base, lobbying local governments, workforce training, workforce turnover and employee loyalty, certification of suppliers and quality control, logistics management, and issues of isolation, dissatisfaction and motivation of expatriate employees.

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<sup>159</sup> For further detail see chapter 5

In the same way that the Mondragon co-operatives reacted to the demands of the market with a policy of regional clustering back in the 1970s and 80s, the current market demands on the subsidiaries abroad are encouraging a clustering of these companies. Even if it does not exist as a formal policy, this emerging phenomenon invites analysis.

### 7.6.2 Mondragon co-operatives FDI: share motivations and joint locations

While analysing the Mondragon Group production plants abroad, we came to understand that the original motivation for opening production plants abroad was very similar for most of the co-operatives. Regardless of the specific industrial sector or co-operative activity, the countries and regions where co-operatives open factories tend to resemble to each other.

In the following lines the main reasons for making FDI in each country or region are briefly reviewed<sup>160</sup>:

- **China and India:** Access to low cost purchasing and local markets with an outstanding annual growth rate. In addition to being able to produce those products, that are not profitable when made at the parent co-operatives, China and India are platforms to purchasing, to selling or to entering in neighbouring countries.
- **East Central Europe:** Locating close to customers this applies mainly to large manufacturers of domestic appliances and the automotive sector. The region represents a strategic geographical position in the EU of 27 member-states<sup>161</sup> and can serve the eastern countries (Russia, Romania, Ukraine, Kazakhstan), while at the same time allows production of technologies adapted to the different product life cycle (PLC) evolution (ceramic hubs and gas cookers that are

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<sup>160</sup> To have a deeply description of the Mondragon production plants in emerging countries see section 5.5 in chapter 5.

<sup>161</sup> At the time of writing the EU comprised of the following 27 member-states (in order of accession): Belgium, France, (West) Germany, Italy, Luxembourg, Netherlands (1957), Denmark, Ireland, UK (1973), Greece (1981), Portugal, Spain (1986), Austria, Finland, Sweden (1995), Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia (2004), Romania and Bulgaria (2007). Further enlargement of the EU is likely. Negotiations with Croatia and Turkey started in 2005 under the UK Presidency. Although an official candidate, a start date for negotiations with the Former Yugoslav Republic of Macedonia has not yet been set.



substituted by electric cookers in western Europe), and enables the subsequent transfer of their production lines from parent co-operatives.

- **Mexico:** similar to East Central Europe in terms of geographical interest, but in this case also for accessing Central America and North America markets, where Mondragon market share remains small or non-existent for most co-operatives. According to MECI 2004-08, the United States was identified as the region with the highest potential opportunities and with lowest market share.
- **Brazil:** Access to a huge local market with a strong industrial tradition which is a world centre for automotive production. This fosters the pursuing of technology in specific sectors or products, and serves as a platform for accessing to the South American countries.
- **Western Europe, USA and Japan:** Access to technology or in specific cases, such as Fagor Brandt and Maier UK, the gaining of a strategic position in the local market.

### 7.6.3 Clusters strategy: a theoretical review

Economic Clusters are a widely researched phenomenon in the field of economic geography. This form of grouping companies has been studied since Marshall's (1890-1920) description of industrial environments, through industrial districts (Becattini, 2004), "stitch places" (Kanter, 1995), and finally in Porter's several works (1990, 1998, 2000). The publication of *The Competitive Advantage of Nations* (Porter, 1990) not only defined the cluster theory but helped also to trigger a large and growing number of formal cluster initiatives in countries all over the world.

According to Porter, in a global economy clusters cannot be understood as an independent fact in the competition and competitive strategy, because globalisation is a driving force of cluster formation and represents a common response to the problem of how nations and regions are trying to maintain competitiveness and the governments deal with the retaining and increasing their local region's wealth. Porter defines a cluster as a "geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities." (Porter, 2000: 16). It includes a balance between competition and cooperation, from an

array of linked industries and other entities, that attempt to maximise competitiveness efficiencies. Companies share many common needs, opportunities, constraints, and obstacles to obtaining competitiveness. A cluster provides a constructive and efficient forum for dialogue among related companies, their suppliers, governments, and other entities.

#### 7.6.3.1 Clusters as a source of competitiveness

The main objective of the “Cluster Strategy” is to increase the competitiveness of companies, while promoting and balancing the following synergies:

- Access to specialised inputs and employees. The presence of a company in a cluster may allow for access to important inputs, for example components, machinery and business services at a cheaper price.
- Access to information. The being part of a cluster allows for greater accessibility (in terms of ease and costs) to market and technical information that has been accumulated in the companies and agents of the clusters. “This also applies to the flow of information between units of the same company. Proximity, supply and technological linkages, and the existence of repeated personal relationships and community ties fostering trust facilitate the information flow within clusters” Obtaining information about current buyer needs is an important special case of the informational benefits of clusters” (Porter, 2000: 18).
- Complementary products for buyers. The spatial relationship of companies within a cluster facilitates the coordination of product and service offerings, and the interrelationship of companies compels to improve quality and efficiency.
- Marketing economies of scale. A group of firms in a single industry can provide increased economies of scales and efficiencies by conducting marketing and sales activities jointly. The increased visibility of the cluster location also increases the visibility of the participants in the cluster, making it easier for buyers to visit and purchase from the cluster or from its members.
- Synergies due to a better alignment of activities among cluster participants. Relationships with suppliers and the rest of the supply chain are more readily understood in the clusters. In addition, productivity improvements can be made

when joint actions are taken by the cluster in areas such as common policies for personnel, resource management, etc.

- Access to institutions and public goods. One of the primary advantages of clusters is their ability to create economies of scale and turn inputs into “public or quasi-public resources”, that is, into consistent and widely available inputs. An example of this is seen in employee recruitment initiatives, which attract locally trained employees, and save companies training costs.

#### 7.6.3.2 Implementing clusters, keys of success:

The following criteria should be taken into account while defining clusters in order to foster the clusters’ strategy opportunities:

- A shared understanding of competitiveness, and the role of clusters in creating competitive advantage. Clusters must differentiate themselves from one another regarding productivity improvements and innovation. Attempting to do so with low wages, low taxes or currency devaluation strategies does not promise long term competitiveness. So that participants could understand the factors that create productivity and how the clusters can enhance it, it is necessary to have initial discussions with cluster members about the difference between real competitiveness and subsidies, along with continuous conversations that will clarify these points.
- A focus on removing obstacles and easing constraints to cluster upgrading. It is important that clear conversations that define expectations and objectives for clusters be part of the planning phase of the cluster initiative. Subsequently it is important to restate and reinforce these goals. These factors will help to ensure that attempts to control competition or to look for subsidies be avoided.
- A structure that embraces all clusters in a nation or state. “Setting priorities not only is bad economics, it disenfranchises large parts of the private sector” (Porter, 2000: 16). Early careful choices help to spread concepts and processes to the clusters, and these will be included in the later initiatives.
- Appropriate cluster boundaries. Clusters should be made up of companies and other agents sharing some relationship, connection or overlap. They should not

just be constructed around broadly defined terms or concepts, like technology companies, high tech, etc.

- Wide involvement of cluster participants and associated institutions. Clusters themselves should attempt to incorporate companies of varying sizes in addition to representatives of outside parties and stakeholders. The failure to include key stakeholders or parties can create unexpected opposition or enemies to the cluster initiative.
- Private sector leadership.
- Close attention to personal relationships. The positive aspects of clusters mostly result from the personal relationships, communication and trust promoted by them. Relationships will grow and become stronger depending on the degree these relations can improve the flow of information and know-how. Third party facilitators can be key agents in facilitating trust building, but from the project's start a concerted effort to promote regular communication inside and outside the cluster is necessary.
- A bias towards action. Cluster initiatives must be motivated by the desire to achieve results.
- Institutionalisation.

As previously stated, cluster theory has specific characteristics. The creation of a cluster might be achieved gradually, as long as the clustering process is taking place. But implementing the cluster approach at an early stage helps regional development success. “Seeing a group of companies and institutions as a cluster also highlights opportunities for coordination and mutual improvement in areas of common concern with less of a risk of distorting competition or limiting the intensity of rivalry” (Porter, 2000: 17).

#### **7.6.4 Mondragon regional clustering strategy**

The creation of new worker co-operatives was promoted by Grupo Caja Laboral under two conditions: That all new co-operatives have an entrepreneur committed to the project, and that the new company was “not a potential competitor of any other existing co-operative”. This strategy resulted in many worker co-operatives spread all over

Mondragon's surrounding local villages, supported by entrepreneurs from: Aretxabaleta, Oñati, Bergara, Ordizia, Eibar, Markina, and Gernika<sup>162</sup>.

The co-operatives' clustering policy dates back to 1964, when the first district co-operative group ULARCO (now called the Fagor Group) was established in the Mondragon Valley by four of the first co-operatives: Ulgor, Arrasate, Copreci, and Ederlan. The co-operative group was established as a private association and regulated by a multilateral contract. This clustering strategy was pursued in order to enjoy the benefits of shared resources without the problems of large-scale organisations, providing coordination rather than the creation of a larger co-operative. "There was some controversy over the extent to which the co-operative groups should play an executive rather than staff role" (Clamp, 2000: 16). The Fagor Group agreed to joint services in such areas as personnel, marketing, new product development, economic and financial services.

More than thirty years later in 1978 the Mondragon industrial co-operatives guided by Caja Laboral, with the aim of promoting coordination among those small co-operatives outside of the Deba Valley, implemented a "regional cluster" policy. Led by Ormaechea, several clusters were created: Orbide, Learko, and Goilan. The motivation for this was the promoting inter-cooperation with new synergies based on geographical proximity, in order to obtain economies of scale. One of the Learko founders mentioned some of the success factors of the project: it was led by people with broad experience who had previously worked at the co-operatives in Mondragon; there were no commercial links between the co-operatives; there were social links and a social commitment among the leaders. "Since they had been students together in Mondragon, they had the awareness that a co-operative group could resolve problems or help resolve them" (Clamp, 2000: 16-17).

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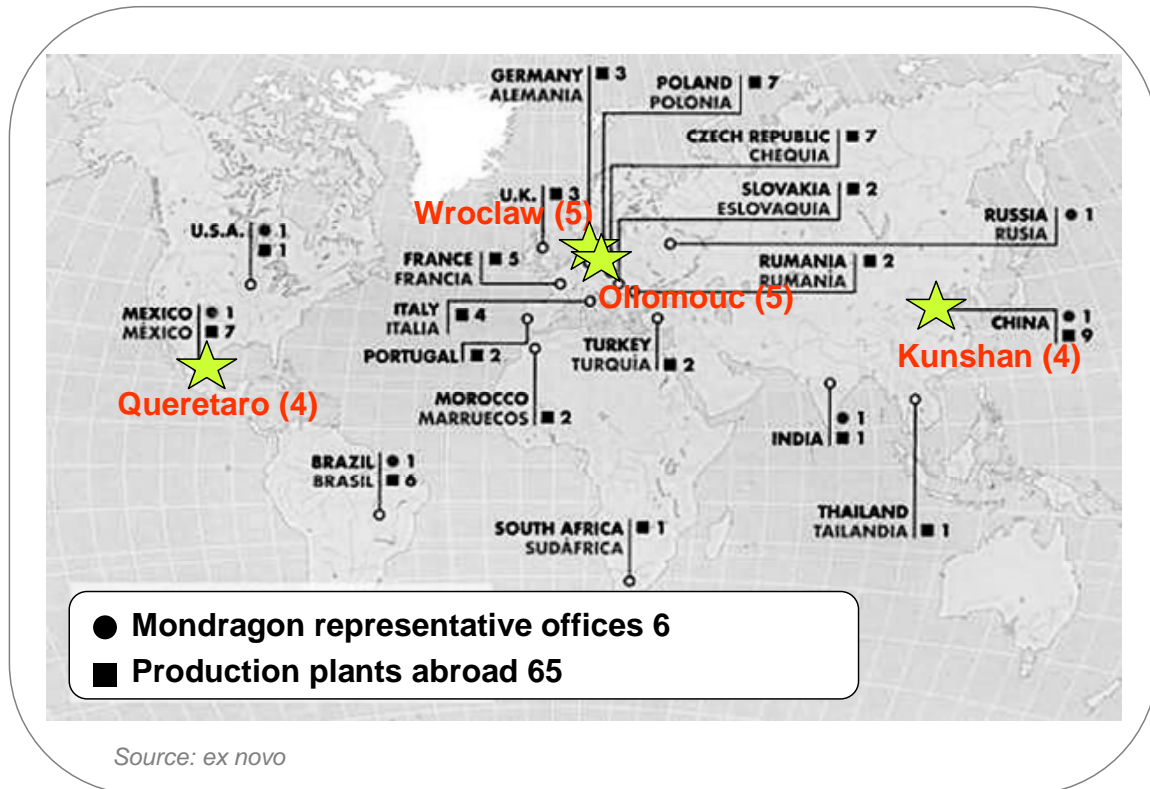
<sup>162</sup> This strategy has often been described as lacking in competitiveness by business management consultants who state that the Mondragon Group should focus on fewer business activities achieving a bigger dimension instead of having smaller enterprises on multiple sectors.

In 1991 the Mondragon Group industrial divisions were re-structured around sectors in order to balance co-operative size and synergies. But, contrary to what might be thought, Mondragon leaders believe that one of its biggest assets is the diversity of sectors, technologies and industries present in the group and the way they complement one another (J. CATANIA, 2006).

The reality of 56 local industrial co-operatives with 15,130 workers back in 1978 in a closed country, where democracy was recently established, differs considerably from the present XXI century situation. At the end of 2006 the Mondragon Group's industrial division includes 100 worker co-operatives, and 118 affiliated companies with a total of 42,444 employees, 14,216 of which work at the 65 production plants abroad.

Until MECI 2004-08, the Mondragon Group did not follow a specific strategy to place co-operatives production plants abroad located in the same environment. Those cases when the Group Headquarters did propose joint placements abroad were not heeded by the co-operatives. As each Mondragon co-operative is autonomous following its own strategy when moving abroad, the fact of the common placements is the case especially for those co-operatives that were forced to do so as part of a reactive or defensive strategy (or in some cases by customers as a contract condition). During the initial phases of the Mondragon Group's internationalisation process, there was not a formal strategy to promote or guide the Mondragon co-operatives placement abroad, and the Mondragon headquarters' recommendations for placement were not convincing to the co-operatives.

Having said that, at the end of 2006 among Mondragon 65 production plants abroad, there are four international clusters (Kunshan in China, Wrocław in Poland, Olomouc in the Czech Republic and Queretaro in Mexico); the distance between factories varies from sharing a common business park to a maximum of 50 km. In all the cases the production plants share the same city centre. This is also the place where local and expatriate managers live.



**Figure 7.65:** Mondragon international clusters: location (Dec. 2006)

The international cluster phenomenon is quite new; in fact if the same analysis would have been done in 2005, only the Queretaro cluster (Mexico) would have been found. For that very reason, the Mondragon international clusters can be considered an important experiment to be explored and reinforced.

### 7.6.5 Mondragon's international clusters abroad

MONDRAGON INTERNATIONAL CLUSTERS	CREATION DATE	INTER-COOPERATION DEGREE	MAIN SINERGIES (order by importance)	COOPERATIVES INVOLVED	NUMBER OF PEOPLE (Dec 2007)	TPOLOGY BY LOCATION DISTANCE	TPOLOGY BY COOPERATIVES INVOLVED
BRAZIL PROMOAUTO (Brazil)	2001	HIGH	Customer management Country learning Government Supplier management	Maier Batz Fagor Ederlan Automodulos	(finish in 2001 except Fagor Ederlan Brasileria)	SAME INDUSTRIAL PARK (<5 Km.)	MONDRAGON COOPERATIVES & NON MONDRAGON COMPANIES (Gestamp,...)
WROCLAW (Poland)	2001	MEDIUM	Customer-supplier relationship Government Country learning	Fagor Electrodomesticos EIKA TAJO EMBEGA COINALDE	2144	SAME CITY CENTER (< 50 Km.)	COMPONENTS DIVISION COOPERATIVES: Fagor MasterCook, Eika Polska, Tabiplast 1, Tabiplast 2, Coinalde y Embega
QUERETARO (Mexico)	2001	MEDIO	Government Country learning Supplier management Management model (Irizar & M. Assembly)	Irizar Group EIKA Mondragon Assembly Matz Erreka	550	SAME INDUSTRIAL PARK (< 5 Km.)	MONDRAGON COOPERATIVES FROM DIFFERENT DIVISIONS: Irizar Mexico, Erreka mex, Eika Mejico, Mondragon Assembly Mejico
MONDRAGON KUNSHAN INDUSTRIAL PARK (China)	2004-2007	HIGH	Government Common investment & construction Country learning Logistic management Supplier management Common services People management Common training programs	ORKLI DIKAR-Wingroup OIARSO ORBEA BATZ Fagor Arrasate Fagor Industrial	500    (under construction)	MONDRAGON INDUSTRIAL PARK	MONDRAGON COOPERATIVES & NON MONDRAGON COMPANIES: Orkli Ch, Wingroup Shanghai, Oiarso Ch, Orbea China (2007) Batz, Fagor Arrasate, Fagor Industrial & GESTAMP (2008)
OLLOMOUC (Czech Republic)	2007	MEDIUM	Government Country learning Customer management Supplier management	COPRECI CZ EIKA CZ MAIER BATZ CIKAUTXO (SL) F.EDERLAN TAJO MATZ ERREKA	900	SAME CITY CENTER (< 50 Km) (* Except Cikautxo & F. Ederlan)	FILIALES DE COOPERATIVAS: Copreci CZ, Eika CZ, Foundeika, Maier CZ, Batz CZ, Cikautxo SL, F. Ederlan SL, Treboplast

*Source: ex novo*

**Figure 7.66:** Mondragon international clusters description

#### 7.6.5.1 The Mondragon Business Park in Kunshan, China (2007):

On November 14<sup>th</sup> 2007 the first Mondragon Business Park outside of the Basque Country was inaugurated. There are four production plants there: Wingroup Kunshan, Orkli CH, Oiarso CH, and Orbea CH. Two are relocations from previous placements in



the country, and two are new ventures in China. Mondragon expects to have 2,000-3,000 employees by 2010.

### **Coincidence and shared needs**

In 2003 Wingroup Shanghai was informed by the local government that they had to move their factory to another location within two years, due to the creation of the Shanghai Automotive City project. At the same time Orkli, which had a rental factory in Ningbo, was searching for another location to start its own greenfield project. Both parent co-operative managers met in Mondragon. This was an excellent opportunity to look for a new location together and for building a common project. A short time later two other co-operatives joined the project: Oiarso (medical equipment co-operative) and Orbea (a bicycle manufacturer).

The former Wingroup Shanghai Manager, who had lived more than four years in China, coordinated the construction of 300.000 square-metre business park at a cost of €30m.

In December 2006 he was delighted with the results of the project, having overcome many difficulties in the three years of the construction process. He explained that to his disbelief a brand new business park stands where only a few years ago there was nothing but muddy fields; and he stated that “the construction was the easiest part; what was much more difficult was dealing on a daily basis with local Chinese bureaucracy and paperwork”. Those with an awareness of the country can imagine what he was referring to.

### **Current and future synergies**

The Kunshan Industrial Park was analysed in December 2006, interviewing managers and employees; since then a short contact has permitted to keep abreast of their progress. At that time, the park was almost finished, with three of the co-operatives preparing to move in. Although it may seem premature to identify synergies as a result of the co-operatives' new location, the managers already can point out some items:

- Investment: the cost of land and construction has been considerably cheaper (more than 30%); it has also been possible to find a better location (individual

smaller projects would not have been able to do this). For Oiarso (an 80-employee co-operative) the working together has been crucial for the feasibility of the China project. Oiarso China expatriate manager affirmed: “We are too small to think of coming to China alone. The factory we built is even larger than the one at home, and our workforce here will be also larger. For us, the being part of the Mondragon Kunshan project allows us to come as co-owners with MCC Investment and ask for financial resources from banks outside the Mondragon Group”.

- Government relationships: in China, the relationship with local and regional government officials is crucial for any project’s feasibility. In the Kunshan project this political issue has been particularly important for having construction / planning and operational permission or for receiving services (such as electricity or water) on time. Mondragon co-operatives have merged their individual capacity, and have only one interlocutor managing their *Guanxi* network.
- Country knowledge and expertise transfer. Probably the largest asset for a manager in China is his knowledge of the country. Usually, most of the expatriate managers will be fully operative at least a year and a half or two years after their arrival. As the current Wingroup Kunshan manager affirms, “it is a little annoying to be constantly answering questions and providing contacts to those who that have just arrived, but when I remember what happened when I first came four years ago – that any small issue became a headache – I am glad to transfer this knowledge and country expertise to the comers”.

All the production plant managers at the park agreed on the importance of having been located in the same park with a common entrance. As the former Orkli CH general manager, states “it is the feeling as living in the same house; while everyone has their space for their needs, we are still able to meet each other in the living room or corridor and go into our day-to-day problems, sharing among us the lessons learned. Being located only a few kilometres away would have reduced significantly this knowledge transfer and the opportunity for common initiatives”.

- Feeling at home: at present, China (and especially Shanghai) is radically different from the late 1980s or 1990s. One of the most experienced Basque

expatriates from Igeo Partners affirms, “back in the 90s we were coming and going on a monthly basis and always after the first week in the country everyone fell down into a deep depression and sense of loneliness.” The 21<sup>st</sup> century Shanghai seems to be closer to New York than to a developing country, with its vibrant city centre and 18 million citizens. The colossal skyline, numerous discos, *julebu* or karaoke are radically different from rural villages in the Basque Country such as Mondragon, Eibar or Ordizia; even Bilbao with its 1 million inhabitants can not be even compared. Therefore, it is important to have colleagues who share a similar lifestyle, especially for a community with co-operative values. Nevertheless, it has to be mentioned that nowadays at branches and at parent co-operatives, Mondragon co-operative managers are in some way different from Arizmendiarrrieta’s first followers, whose day-to-day life was inspired by the Christian social doctrine.

- Customer image, branding and marketing: in countries such as China, where the quality and capacity of the factories is constantly scrutinized, being part of a common business park branded with your company’s label has a strong impact. This applies not only for smaller companies such as Oiarso or Orbea with little expertise in China, but also for experienced companies such as Orkli or Wingroup, an indoor fitness equipment producer whose main clients are European retail chains and some multinationals, Carrefour for instance. The Wingroup manager states: “I am sure that this new placement will allow us both to have a better relationship with current customers, and to attract new international retail chains whose procurement centres are located in China, as well as to look for reliable suppliers in China that will assure high volume capacity and at European standards of quality control”.

The above examples are some of the most important synergies identified by Mondragon Business Park managers in Kunshan as early as 2007. They also revealed other synergies that will appear once they start producing. These are:

- A common salary<sup>163</sup> policy: a united force allows subsidiaries to operate with a common salary policy. Otherwise, there would be competition among production plants regarding the similar type of employees. This process is

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<sup>163</sup> The terms “salary” and “wages” are used to express similar concepts “the amount of money employees receive”, not including taxes and social benefits.

already taking place, and a minimum monthly salary of 850 CNY (81.26 EUR & 117.29 USD) has been defined (The Chinese official minimum monthly wage in Shanghai is 750 CNY)<sup>164</sup>.

- Training centres, educational programmes, and employee social benefits. A CEIBS<sup>165</sup> University study makes clear that according to the leading multinational executives in China, corporate education centres and programmes serve as the best tool to retain employees and reduce staff turnover. “GE opened its second-largest training centre, outside its New Jersey headquarters, in 2003 with the 42,000-square-foot Global Resources Centre in Shanghai. The centre offers R&D, sourcing, and training courses for employees as well as for government officials and GE customers” (Fernández, 2005: 49). Although it has no formal training strategy, the Mondragon business park in Kunshan already operates a site for training programmes, one of which also includes a restaurant and a building for an employee residence. No part of this initiative is to be paid for by any co-operative individually.
- Supplier certification programme and management. Accepting that co-operative industrial activities differ, it is clear also that their most decisive supplier will also differ. But there are some other service providers (for instance accounting, IT and legal services, packaging, raw material, etc.) that co-operatives have the opportunity to purchase jointly, receiving better price conditions and service, sharing at the same time mutual costs and knowledge.
- Logistics, transport and quality control policy: managers identify these activities as something of mutual use for the whole business park. While each factory has its own volume, product specification and transport requirements, it is still more efficient to merge these activities with payment agreed upon in accordance with specific use.

These inter-cooperation opportunities will be carried out in the following months.

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<sup>164</sup> The East China metropolis local government announcement for Shanghai (*Shanghai Daily* August 8<sup>th</sup> 2006). For other cities the minimum monthly wages are for instance for Shengzhen 850 CNY (*Shengzhen Daily* April 19<sup>th</sup> 2006). Back in 2004 for 30 regions of China's mainland the minimum instituted wage, with Shenzhen boasting the highest monthly level of 600 CNY (about 73 USD), Shanghai 570 CNY (69 USD), and Beijing 495 Yuan (60 USD). (*Xinhua News Agency* July 26<sup>th</sup> 2004).

<sup>165</sup> China Europe International Business School (CEIBS).

The Mondragon international business park policy, until now active only in Kunshan, appears to be a significant opportunity; the former Mondragon Group President has already stated that this strategy will be probably implemented in India and Russia during the coming years.

#### 7.6.5.2 The Wrocław cluster, Poland (2001):

Since 1997 when the Fagor Electrodomésticos Group arrived to Poland, buying Wrozamet (a longstanding Polish factory), many other electronic home appliance manufacturers (Electrolux, Whirlpool, and LG) have also arrived and many component suppliers opened factories in the Lower Silesia. Four components co-operatives (Eika Polska, Tajo Tabiplast, Coinalde, and Embega) have recently opened plants in the same area. In this clustering process examples of inter-cooperation are already taking place:

- There are customer-supplier relationships among the production plants abroad. Highly influenced by the role and size of Fagor MasterCook with 2,000 employees working at the remainder of the subsidiary, suppliers of Fagor and other large domestic appliances manufactures have placed themselves there.
- For the first time in the history of the Mondragon Group a production line of one co-operative has been placed inside the factory of another co-operative to serve as an internal supplier. This is the case with Tajo Tabiplast, which has 21 employees, and is now an “in-house” supplier for the new washing machine factory built in 2006 by Fagor MasterCook. Fagor has two in-house suppliers: a local Polish company, and Tabiplast.
- The Basque government has established strong relationships with the Lower Silesian regional government, in order to encourage regional inter-cooperation. In 2006 SPRI, a private company that the local government uses to support entrepreneurial activity, opened its second office in Poland. This office is part of the new *Euskarri* policy that SPRI has implemented, which includes a business centre and a new FDI plants incubator.
- Personal relationship among expatriates: the personal relationship among those working in Wrocław is very close. It is not uncommon for expatriates to meet at the local language school when attending Polish lessons, and to share problems

about suppliers or customers, fix schedule meetings to work on a project, help each other by advice giving, provide contacts or personal support.

Until now no common initiative has been undertaken to encourage these potential synergies or to create a formal organisation with the aim of coordinating such activities and promoting inter-cooperation synergies.

#### 7.6.5.3 The Queretaro cluster – Mexico (2001):

The companies in the Queretaro cluster in Mexico, not unlike the factories in Kunshan, do not share an industrial sector but rather a strategic location. Since Irizar Mexico landed in 2000, three more production plants have been opened at the same business park: Eika Mexico, Erreka Mex, and Mondragon Assembly.

The co-operatives placed in Queretaro have never created a formal cluster programme, but because of personal relationships they are already inter-cooperating in the following areas:

- Place selection, and investment: based on the positive experience of Irizar-Mexico, once Eika decided to open a factory in Mexico to enter the American market, also decided to place itself in Queretaro. At present, the plant is located 200 metres far from Irizar in the same business park. Mondragon Assembly and Matz Erreka did the same, and are settled, the former 5 km and the latter 50 metres away from Irizar (some co-operatives have bought the land where they are located, others are on rental contract). Fagor Industrial, which was also arriving in Mexico at the same time, did not decide at the end to buy land together with Mondragon Assembly, but to place itself in San Luís Potosi (approximately 400 km away). Its Uruguayan manager states that Queretaro “is more expensive; I found better conditions for investment in San Luís”, and continues: “I also have a close relationship with other Mondragon subsidiary managers”.
- Local government, trade unions and lobby groups: the weight of local government in Mexico is strong. The Basque government has a good relationship with the governor of Queretaro, and all these personal contacts help to overcome local bureaucracy. Regarding trade union representatives, all of the

Mondragon production plants in Queretaro have the same person as the local representative. As Mondragon subsidiaries have slightly better employee conditions than other multinationals, the relationship is smooth.

- Shared accounting, IT and legal service providers: based on the positive experience of Irizar, every new co-operative arriving in Queretaro contacts the same service providers. At the end of 2006, all the production plants shared the same service providers, and used their size and economies of scale as a negotiation tool.
- The personal relationship among production plants managers is strong due to a common life style. The families of managers build relationships that encourage the expatriate managers to meet socially<sup>166</sup>.
- Relationships with universities and training programmes: while Mondragon production plants maintain links with local universities, until now they do not have a common policy or training programme. In 2006 four *Socrates* students from Mondragon University, in collaboration with the Tecnológico de Monterrey educational institution, completed their undergraduate theses and internships at Mondragon production plants. Since then a student exchange program has been established. Such initiatives reflect new opportunities for educational programmes that need to be explored and coordinated in the future.

#### 7.6.5.4 The Olomouc cluster, Czech Republic (2007):

Since Copreci CZ was established in 1997, many other Mondragon production plants have opened with the aim of supplying domestic appliance and automotive manufacturers; however, this has occurred mainly in the last 3 years, and by the end of 2007 the following subsidiaries were already in action: Maier CZ, Batz CZ, Cikautzo CZ and SL, Matz Erreka, Tajo Treboplast, Eika CZ, and FoundEika.

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<sup>166</sup> Many are close friends, meeting to have dinner, to participate in the activities of each family's children, or to play *mus* on Sundays. Even for the moment they do not have an *Euskal Etxea* (a Basque cultural association) in Queretaro, a feeling of community is strong among the Basque population in Queretaro. It has to be mentioned that everyone agrees that their wives' role on creating personal relationship among co-operatives' expatriates has been of great importance.

Until 2006 the cluster relationship was an informal one, in which subsidiary managers shared their expertise and knowledge based on personal relationships. In 2007, due to having four production plants from the automotive sector placed in the same region, the Mondragon automotive division scheduled a formal programme for monthly meetings. The objective was to encourage knowledge transfer and the identification of potential joint initiatives.

At present, the formal meetings include not only Mondragon production plants from the automotive sector, but also any plant located in the same region. Production plant managers feel that the monthly meetings schedule is very important and comply with them, though the daily tasks make difficult at times the sharing even of the informal knowledge.

The Olomouc clusters involve an additional difficulty by the fact that some of the factories (such as those in the Slovak Republic) are more than 200 km away from each other. The monthly meetings are rotary, with each meeting taking place every month in a different factory; and this policy allows also the managers to visit all the factories during the first year in charge.

In June 2007 at a cluster meeting, it was decided that it would be beneficial to programme meetings not only for general managers, but also for the individual departments of each plant (such as accounting, HR, sourcing and logistics), with the aim of spreading the inter-cooperation mentality among the subsidiaries. It is clear however at the Olomouc cluster that this was a brand new initiative, and that inter-subsidiary cooperation is still developing.

Additionally there are exchange programs between the Mondragon University and Czech Universities, and in fact a few students from Mondragon have already done their careers' final projects at Mondragon production plants in the Czech and in the Slovak Republic.

#### **7.6.6 Potential synergies among international clusters**



When analysing the clustering of Mondragon production plants abroad from a global perspective, one can identify a multitude of positive synergies, all based on geographic proximity and on location sharing. Based on the information provided while visiting and interviewing subsidiary directors, we found the following synergies common to all the clusters:

- Branding, marketing and management of lobbying efforts: mainly at local and national government level, and at the customer and supplier level.
- Sales and sourcing management: customer opportunities based on economies of scale and certification, supplier opportunities based on scale and negotiation capacity, supplier certification processes and quality control.
- Human resource management: education and training programmes, common labour conditions, professional career management, employee social benefits and (consequently) the reduction of employee turnover and a growing sense of loyalty and belonging.
- Logistic and supply chain management: enhanced agreements on transport conditions, as well as a coordinated structure of logistics and scale-based synergies.
- A commitment to the local environment: a commitment to positive socio-economic impact based on employment creation capability, the promotion of social transformation capacity of people-centred enterprises inspired by co-operative principles, and the creation of opportunities for new, local social enterprises based on the same principles.
- Project financing: improved conditions for each co-operative, based on joint land and construction projects, as well as on construction process management.

Such potential synergies are made possible by the inter-cooperation network among the production plants. This is influenced by the following aspects of the project: the industries and ownership of the companies, and the distance/integration among subsidiaries.

- Geographical integration: There is a varied degree of subsidiary placement integration in foreign countries. Four types of geographical integration with corresponding levels of inter-cooperation synergies are stated here:

- Overseas production plants located in the same region, but separated by distances greater than 40 km.
- Overseas production plants located in the same urban area at a distance among the subsidiaries less than 40 km and with managers sharing a common residence.
- Overseas production plants located in the same industrial area or park, the distance from each other less than 5 km.
- Overseas production plants located at a Mondragon business park, with a common entrance and shared services such as a restaurant, security or landscape maintenance.

COMMON PLACEMENT SINERGIES	Same region being production plants located > 40 Km.	Same region being production plants located < 40 Km. and sharing managers the same city center	Same industrial park < 5 Km.	Mondragon industrial park with common entrance and services (restaurant, training centre,...)
BRAND MANAGEMENT	2.0	3.0	7	10
COMMERCIAL MANAGEMENT	1.3	4.0	7	10.0
PEOPLE MANAGEMENT	0	1.8	7	10
LOGISTICS MANAGEMENT	1.3	3	8	10
SOCIAL RESPONSIBILITY MANAGEMENT	1	4.5	8.5	10
KNOWLEDGE & INNOVATION MANAGEMENT	2	4	8	10
INVESTMENT FINANCE	0	0	2	10
<b>TOTAL</b>	<b>22</b>	<b>65</b>	<b>152</b>	<b>200</b>
<b>AVERAGE</b>	<b>1.1</b>	<b>3.25</b>	<b>7.6</b>	<b>10</b>
<b>ORDER</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>

*Source: ex novo*

**Figure 7.67:** Mondragon international clusters: synergies by distance among production plants

In the above chart, the relative importance of the potential synergies resulting from geographical proximity is ranked. This ranking is based on the fieldwork conducted while visiting and interviewing Mondragon co-operative managers abroad.

- Typology of subsidiaries: there are several possible types of production plants that could be placed in a joint project:
  - A combination of Mondragon and non-Mondragon companies.
  - Mondragon plants from different industrial divisions.
  - Mondragon plants from the same industrial division.

- Mondragon plants from the same industrial division, and with a customer-supplier relationship.

COMMON PLACEMENT SINERGIES	Mondragon cooperatives and non Mondragon companies	Mondragon cooperatives from various divisions	Mondragon cooperatives from the same division	Mondragon cooperatives with a customer-supplier relationship
BRAND MANAGEMENT	3.0	6.7	10	10
COMMERCIAL MANAGEMENT	2.0	6.7	10	8.0
PEOPLE MANAGEMENT	0.4	8.2	10	8.8
LOGISTICS MANAGEMENT	2	10	10	10
SOCIAL RESPONSIBILITY MANAGEMENT	-2	10	10	9.5
KNOWLEDGE & INNOVATION MANAGEMENT	2	9	10	9
INVESTMENT FINANCE	10	7	5	5
TOTAL	19	169	200	184
AVERAGE	0.95	8.45	10	9.2
ORDER	4	3	1	2

Source: ex novo

**Figure 7.68:** Mondragon international clusters: synergies by production plants profile

In the chart above, the relative importance of the potential synergies (according to the typology of subsidiaries) is ranked. This ranking is based on the fieldwork conducted while visiting and interviewing Mondragon co-operatives managers abroad.

### 7.6.7 Lessons learned and conclusions about the Mondragon international clusters

The above analysis leads us to the following conclusions regarding the capacity for inter-cooperation and for potential synergies that have emerged from coordinated placements of the Mondragon production plants abroad:

- The most important alternative is that of having a common Mondragon business park where Mondragon oversees production plants are located. It is of great interest that the plants are located as close as possible to other Mondragon companies for many purposes, especially for the fact of sharing the same industrial park.
- Inclusion of non-Mondragon production plants, which might have a positive impact on project financing, scale and competition. However, this alternative does may reduce potential opportunities for inter-cooperation in the Mondragon

- subsidiaries. In addition, it might have a negative impact on the social dimension and on the expansion of co-operative principles.
- As a consequence of the level of integration and of shared activities (supplier quality assurance and logistics / supply chain management) a common structure is needed to manage activities for all the production plant clusters.
  - Even if the three alternatives (Mondragon *distinct* division subsidiaries, Mondragon *similar* division subsidiaries, and customer-supplier relationship among Mondragon subsidiaries) present positive synergies, it seems that the most beneficial is the clustering of production plants (no matter the division) with no customer-supplier relationship.
    - Those production plants from similar industrial divisions might be more likely to enjoy all of the potential synergies to the fullest extent; nevertheless, it is worth promoting joint location no matter the division, for even low levels of inter-cooperation can be extremely beneficial.
    - Those production plants with a customer-supplier relationship might have economic interests that are at odds, preventing the exploration of broader inter-cooperation strategies. Such a strategy was a part of the Mondragon cluster policy in the Basque Country back in the 1970s with groups such as Larko or Goilan, and resulted in unequal relations between co-operatives.
  - Mondragon social transformation capacity abroad is strongly reinforced by having a common business park. This approach could be a beneficial opportunity to share common co-operative values, though it also involves the risk of assuming non-co-operative values and practices. Therefore, specific guidelines and rules should be stated and brought about, accompanied by Mondragon University educational branches or/and training centres, as well as by Mundukide social projects in the region of the park.

## **CHAPTER 8:           GENERAL CONCLUSIONS AND FURTHER RESEARCH**

### 8.1 INTRODUCTION

With the aim of arguing the case for the main hypothesis within the research, this chapter will involve examination of the most prominent of the conclusions reached. The empirical evidence obtained is gathered in order to integrate the results into the three phases of fieldwork, following the settled methodology.

The chapter will be divided into the following main sections:

- Origins and methodology.
- The conclusions of the impact of globalisation on employment generation in the Mondragon Group co-operatives 1996-2006 (multi-localisation vs. de-localisation) (phase I).
- The main conclusions drawn from analysis of the internationalisation strategy of the Mondragon Group industrial co-operatives and their establishment abroad regarding performance (phase II-a) and principles (phase II-b).
- Management best practice case study conclusions, gained from examination of the Mondragon Group production plants abroad (phase III).
- Hypothesis substantiation and support.
- Future research.

## 8.2 RESEARCH POINT OF DEPARTURE AND METHODOLOGY

### 8.2.1 Point of departure

As a consequence of globalisation, the international dimension has become one of the most important keys of competitiveness and survival for the industrial companies. This fact has given place to a migratory process without precedent, one that threatens employment and economic stability within communities in wealthier countries, and at the same time generates new employment and development opportunities for communities of poorer countries.

Previous literature states that place based rooted companies including those of a co-operative nature uphold, in a more effective way, the stability of local communities in the light of the threat due to globalisation. However, as the traditional structure of the

co-operative is local, this lacks the preparation required to meet the challenge that the shifting global situation presents.

The Mondragon Group co-operatives, aware of the threat to employment and regional stability, responded to the phenomenon by opting to compete in international markets through use of the capitalist structures that assure their global competitiveness. This strategy has surpassed the historical and local dimension of Mondragon, creating production plants throughout the world. Besides, and at the same time, opens a door to wealth increase through the creation of employment overseas.

Such an unorthodox path in the traditional co-operative structure, where the performance of the parent companies is a co-operative one and capitalist for the rest, confronts the Mondragon Group with probably the greatest challenge in its history.

On one hand, this policy increased the threat of co-operative degeneration, for by imposing the law of the market and capitalist individualism, it could have led to a loss of the very identity of the co-operative model.

On the other a paradigmatic opportunity of international social change was presented, in the case of identifying a way to create and / or transform the production plants abroad into human-centred companies that assume their own co-operative principals.

As a result of the newness and international nature of the phenomenon in the Mondragon co-operatives, academia has encountered many questions, but not the immediate answers. The questions regard mainly the type of impact the global dimension is having on the local community and how the co-operatives are handling this process and what could be considered successful experience to be replicated.

Although it does allow for an increased understanding of the phenomenon, the secondary sources from the Mondragon Group that examine the process of globalisation are unable to provide the right answers. The systematic analysis of the previous data in this research presents knowledge with regard to both the present strategic objectives of the group and its strategic internationalisation plan (PECI 2004-2008), and considers the social objectives included at the branches: for instance, the 30% of the employees

having a participatory relationship; resources allocated to education and training; the independent and transparent wage scale.

However, at the time of writing no specific indicators have been defined and used to monitor these variables; and in general terms and based on the period 1996-2006, no academic study has been conducted on a theme of paramount importance: the Mondragon globalisation impact on employment in the local communities, the international strategy followed by global co-operatives, and the economic and social performances of the production plants abroad. To tackle these items, the right procedure will be to measure and test quantitatively the historical impact of the Mondragon multi-localisation strategy on employment, and to understand, describe and test qualitatively the activity and performance of the global co-operatives from the point of view of the production plants abroad.

Therefore, the present research has intended to present an empirical case study on the Mondragon co-operatives production plants in emerging countries abroad, as a result of the Mondragon multi-localisation strategy in a global economy. For the first time an empirical analysis includes fieldwork analysis with direct observation of the Mondragon plants abroad, allowing a better understanding of the way Mondragon industrial co-operatives are trying to minimise globalisation negative impacts for communities and maximise the positive ones.

### **8.2.2 Methodology**

The primary methodology followed is that of the case study method (Yin), combining various research tools grouped into the following phases of the study:

- Phase I analyses the historical background of employment at the Mondragon Group industrial co-operatives for the period 1996-2006. It involves quantitative analysis validated with information gained from reports on the activity of the co-operatives.
- Phase II studies the environment in which the 25 global co-operatives operate, grouping them in according to the time and place of the multi-localisation process, outlining country by country where the production plants became

settled. This phase also presents a disclosure of the main barriers and incentives encountered abroad in extending co-operative principles.

The fieldwork included in this phase was conducted from December 2005 to June 2007; it undertook 135 interviews with Mondragon directors based abroad, as well as 40 visits to Mondragon production plants in the following countries: Brazil, China, India, Mexico, Poland, the Czech Republic, the Slovak Republic and Turkey.

- Phase III examines the main CSR management best practice case studies at production plants in emerging countries coherent with co-operative philosophy: Orkli China, Irizar TVS, Copreci CZ, Fagor Ederlan Brasileira and Fagor MasterCook. It also explores the phenomenon of subsidiary clustering and inter-cooperation in Kunshan, Queretaro, Olomouc and Wrocław, and the co-operativisation model implemented by Eroski in its expansion in Spain.

### 8.3 CONCLUSIONS

#### 8.3.1 Phase I: The impact of the Mondragon multi-localisation strategy on employment generation and community stability

This first phase of the research sought to answer the following questions:

- Do Mondragon co-operatives, through FDI multi-localisation, defend better the interests of parent co-operatives on local community employment?
- What is the FDI impact on member vs. non-member evolution in parent co-operatives, and internationally?

The results obtained from analysis of the studied period (1996-2006) show the following conclusions: In quantitative terms, employment in those co-operatives that operate at least one production plant abroad (global co-ops) grows more than in those without a plant abroad. This net employment growth is higher at the parent co-operatives (28.04% > 13.71%), in the immediate environment (52.5% > 24.71%) and at the general level (140.58% > 21.04%).



Despite of the positive net job growth during the period at the parent co-operatives (22%) and in the immediate environment (41%), historic analysis reveals that globalisation represents a real threat to employment and stability in the surroundings of Mondragon.

If the effect of the incorporation of Ulma into the group in 2001 is discounted<sup>167</sup>, net employment growth at the industrial division during the period 1999-2006 is considerably lower: 10% at the parent co-operatives, and 29% in the immediate environment. Of particular note is the weak net growth of the co-operatives that do not operate any production plant abroad (local co-ops): nil at the parent co-operatives (0%), and a reduced figure of 10% in the local environment.

These results are consistent with the thesis that states that businesses with ownership attached to a specific area defend themselves more effectively against the threats globalisation has on the local community (Imbroscio, Williamson and Alperovitz 2003). The Mondragon co-operatives, despite the fact that their respective sectors are threatened by the processes of de-localisation (with redundancies and company closures), have not only maintained employment but also have generated new jobs in their local environment.

Previous research, conducted in French and Italian companies, has shown that FDI made by European companies does not necessarily lead to employment reduction at the parent company (Barba Navaretti and Castellani, 2004). In the case of the Mondragon Group, empirical evidence from the period 1999-2006 shows that not only does FDI have no effect on employment at the parent co-operative, but that it also entails a positive relationship between foreign investment and parent co-operative net job growth.

If employment evolution of co-operative member versus non-co-operative is examined, one can reach to the conclusion that the relationship between the number of members over the total employees in the global co-ops has been affected significantly by the

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<sup>167</sup> The impact on Mondragon employment growth from other co-operatives, such as Ampo or Matrici which also joined the group during the period 1999-2006, has not been excluded.

present strategy of international production. This results on a drastic reduction from 67% to 38% during 1999-2006.

In another sense, the relationship existing between the number of members over the total employees at the parent co-operative has not been significantly affected by the current strategy of international production. In this case, the increase at the global co-ops from 1999 to 2006 was one that rose from 78% to 84%, greater at the global co-ops (84%) than at the local co-ops (75%).

From the above featured statistics it can be affirmed that the Mondragon industrial co-operatives globalisation is a major threat to local community stability, having a significant impact on the traditional co-operative structure.

However, at the same time globalisation also represents an unprecedented opportunity that can multiply wealth generation capacity by generating employment<sup>168</sup> in a developed economy (net job growth of 20,531 in Spain and 3,774 abroad since 1999) as well as in the emerging economy (net job growth of 8,524 since 1999).

The fieldwork of phase I concludes with the affirmation that FDI for global dimension, one that encompasses not only international sales and international purchases but also the international multi-localisation of production centres, is a successful strategy in complying with the prime commitment of the co-operatives: “creating net employment in general, and co-operative employment in particular”.

This statement is coherent with Macleod statement of “the business dilemma versus the social imperative”; although Mondragon has not skill used the co-operative legal form while operating abroad, the international strategy responds to the same social objective of the Mondragon community.

However, the Mondragon co-operative does not only involve generation of employment. But from the very beginning Mondragon has sought the creation of a new

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<sup>168</sup> As mentioned previously, this contribution is considered by J.M. ORMAECHEA to be the most important contribution of the co-operative to society. Additionally, according to A. KARNANI 2006, creating opportunities of employment at a reasonable wage is the most effective way of eradicating poverty.

type of company, or the “total company” (Ormaechea, 2006: 112) that is consistent with the ideals of human and Christian solidarity, as well as the establishment of a work community (Aranzadi, 1976: 422). Evolving from a local co-operative structure into a global one entails for Mondragon influences that need to be taken into account, especially those associated with the democratic participation of the workers in management, in results and in ownership.

### **8.3.2 Phase II-a: The Mondragon Group industrial co-operatives globalisation strategy and performance.**

This second phase of the research sought to answer the following questions:

- Is the Mondragon Group international strategy mostly a HFDI, being competitiveness through international sales growth the main objective of production plants abroad?
- Is there a social objective in the Mondragon Group international projects?
- What are the main limitations and incentives to the international expansion of co-operatives principles?

The results of the analysis of the Mondragon Group globalisation process, headed by 25 global co-ops, produce the following key points in the international strategy:

#### **8.3.2.1 A global defensive strategy**

The co-operatives do not assume establishment abroad as a proactive strategy to be implemented; they adopt a reactive one, which is the main reason for defence of employment at the parent co-operative. The majority of the projects abroad pursue achieving a global dimension that allows for such defence in the short- to mid-term.

The interviews conducted have revealed that the decision to internationalise was taken as a result of necessity. Analysis of the progression of employment at the respective parent co-operatives of the 25 global co-ops supports such a statement, given that the period 1996-2006 saw a growth rate of less than 30%. Nevertheless, cases which assume the global dimension as a proactive business opportunity have been found.

One of the frequent questions in the interviews with the managers was: how many jobs have to be generated abroad to maintain one at home<sup>169</sup>. Consistent with the progression of net employment growth during 1996-2006, and despite the variability in terms of average absolute value without consideration of the sector or the size of the company, it can be affirmed that five new jobs have been created abroad to create one net job at the parent co-operative.

### 8.3.2.2 A market-oriented HFDI strategy

Examination of activity during the period 1996-2006 highlights that for the Mondragon global co-ops there is a coherent positive evolution across total sales growth (294%), the weight of international sales (from 32% to 59%), and the net job growth in employment abroad (12,554 employees).

Therefore, it could be argued that the globalisation strategy of the group is fundamentally based on HFDI. The greenfield projects, joint ventures, and acquisition of companies all seek growth in international sales and access to market share abroad.

### 8.3.2.3 A diversified and multiple strategy

In line with the co-operative principle of autonomy, a plurality of strategies exists among the 25 global co-ops. Empirical evidence shows that from 1996 onwards the general trend changed: the number of projects abroad and consequent amount of co-operatives have been increased. Such increases were concurrent with the first Strategic Plan for Internationalisation (PECI).

This acceleration in the process of opening production plants abroad, despite the fact that it was expected to have slowed down, as at the end of 2006 Mondragon already operated 65 plants, employing 14,216 people, the current trend continues with constant growth. In 2006 eight new production plants were opened abroad.

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<sup>169</sup> This question was mentioned in almost all the 135 interviews conducted with Mondragon managers.

Collective analysis of the 25 global co-ops offers an average profile that at the end of 2006 revealed the weight of international sales as regards total sales as 59.33%, 35% for international purchases and 43% for the number of workers located abroad (PEX/PT). Distinct strategies for globalisation and itinerary for progress were evident; the most common was the “local player – exporter – global player”.

Study of the instance when the first venture abroad is opened allows for identification of two groups of co-operative: those that were already global operators in 1999 (MNEs) and those whose first venture abroad commenced in between 1999 and 2004 (SW). In general terms, it can be affirmed that the behaviour of the two groups is consistent, although there are certain important contrasts such as a lower rate and capacity of net employment growth at the parent co-operative of the respective MNE.

#### 8.3.2.4 Analysis of the establishment of Mondragon in emerging economies

At the close of 2006, the 65 production plants were located in six strategic countries and regions, such as the European Union (seventeen plants), China (nine), the Czech Republic and the Slovak Republic (nine), Poland (six), Mexico (six) and Brazil (six).

There are differences in the strategies and results of each country venture, although they do share common characteristics such as the main reason for establishing a production plant through HFDI and access to a market share abroad.

- In China and East Central Europe, HFDI is combined with VFDI, including the de-localisation of certain processes as a result of cost reduction in those industrial activities that are no longer cost effective at the parent co-operative.
- China and India are the main countries in terms of operations in procurement or international purchasing; the former is the most active and profitable in semi-manufactured products, and the latter in raw material purchase. At the end of 2006 Mondragon co-operatives had not yet commenced any process of international service outsourcing.
- Entrance into East-Central Europe has emerged as an indispensable strategy for many of the co-operatives, in particular for the automotive and domestic appliance sectors, as a result of a shift in production trends in a changing

European Union (EU) of 27 member-states and the consequent expected growth in local consumption<sup>170</sup>.

- The emerging economies in which the production process has the highest degree of quality are Brazil and the Czech Republic. The adaptability of labour is of particular reference in the former.
- In general terms, the most profitable plants have emerged from East Central Europe and Mexico. Regarding cultural differences, it is also notable that these cases are those which have experienced the lowest cultural difference, with expatriate managers enjoying a greater degree of integration.
- China and Russia are the countries which have presented the most management difficulties; this is of particular relevance as in both cases control of the subsidiary is fundamental. To minimise errors, a combination of a local senior manager and an expatriate manager is required. This situation is generally nonexistent, with complete responsibility remaining in the hands of the expatriate manager, which can lead to a loss of important commercial opportunities.
- India is considered to be the least known and most appealing. The present opportunities to enter a potentially important market, the quality and success of production operations in the country and prospects for research and development (R & D), as well as outsourcing of services are all of appeal.

Such an analysis highlights the opportunity and necessity of assuming simultaneously new operations in various countries. Given the limited financial and management resources of the parent co-operatives, knowledge and strategic analysis of reasons and order in the establishment of operations is fundamental.

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<sup>170</sup> For further detail on the UE27 countries see footnote number 169.

### 8.3.2.5 A social and economic strategy

Analysis of the social and economic objectives of the global co-ops in the period 1999-2006 reveals a positive relationship between total sales growth, the weight of international sales, employment growth abroad and an added value per job<sup>171</sup>.

The empirical evidence of such social and economic ratios, as well as the direct positive impact on FDI and net employment growth at the parent co-operative, allows the following conclusion: the Mondragon Group international multi-localisation strategy increases the competitiveness of the organisation, and is socially and economically beneficial.

However, examination of the social dimension reflects that in general terms a specific definition of social policy abroad is difficult to identify. But with the support of the empirical evidence found in situ at the group subsidiaries, what can be stated is the following:

- The production plants abroad have in general terms assumed the commitment within the legal framework in all of the developing economies. In addition, in the majority of cases, to a greater or lesser extent, management models adapted from the parent co-operatives have been implemented.
- While some exceptions do exist, in general terms there are not significant contrasts between the salary conditions and social benefits provided by Mondragon production plants and those at other MNEs operating in the same economy; both packages are slightly more favourable than those offered by autochthonous firms in the immediate surroundings.
- At a figure of more than 50%, in general terms turnover among blue collar employees is surprisingly high. This variable, which is seldom monitored by the management at the plants, has not featured in any comparative analysis that spans Mondragon Group plants in the country or region. Comparative analysis of the businesses within the same country shows that those that have followed a

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<sup>171</sup> The latter item measured with earnings before interest, taxes, depreciation and amortization (EBITDA).

- more beneficial salary policy, alongside higher levels of investment in training, maintain an acceptable and much lower level of staff turnover than at others.
- The majority of the blue collar workers are unaware of the social and business dimension to the group and the co-operative and human-centred nature of the project. However, certain exceptions do exist (such as those featured in previous conclusions), that have involved visits to the parent co-operative and / or featured a high degree of project belonging and participation.
  - Initiatives or projects with a social commitment (educational or philanthropic) to the cultural and geographic environment in which the production plant is sited are momentary and symbolic. Identification with the surroundings is limited, and in some cases involves an even lesser degree than that of other MNEs operating in the same region.
  - However, though it often goes unnoticed, a significant contrast exists when comparing the Mondragon production plants with international production projects of other MNEs. The mentality of the Mondragon managers is surprising; for them the main objective is the guarantee of employment at the parent co-operative at any cost. It can be affirmed that this is not only the main reason behind establishing plants abroad, but also the *leitmotif* of the strategic decisions of the majority of the subsidiaries abroad.
  - In the majority of the global co-ops there is a financial dependency between the parent co-operative and the subsidiary. They have not conducted a strategic analysis as a result of a wider sustainable strategy regarding the new dimension, the global-local dependency, and the attainability of necessary global-local synergies. Save certain exceptions (such as the Fagor Electrodomésticos Group, the Irizar Group and the Copreci Group), group wide structures that encompass the global vision and strategy have not been created.

The scant social dimension to the production sites abroad is surprising, although justification can be found in the existence of another social objective that identifies itself in the majority of the projects, the omnipresent guarantee or defence of employment at the parent co-operative. This fact is a result of, or is at least stressed, by the process of globalisation, the lack of a global strategy, and the inexistence of local



management models, with this having been overcome at some co-operatives with a more prolonged experience.

Therefore, the statement that the Mondragon Group production plants abroad do not have a social objective is a very difficult argument to sustain. They do have a social objective, one that possesses a weighty importance. While this objective for the moment has not been broadly implemented at the production plants abroad, this objective remains in the very defence of social stability at the parent co-operative.

Finally, it is important to stress that certain cases do exist in which operations abroad possess the fundamental aim of maximising the financial profitability of the members at the parent co-operative; this is something that distances itself considerably from the historic foundations of the co-operative, where it is the interest of the worker that prevails over that of capital.

### **8.3.3 Phase II-b: The international extension of the Mondragon co-operative principles**

The results obtained from 135 interviews produces insights into the opinions of group executives working aboard.

#### **8.3.3.1 Limitations to extending co-operative principles**

Firstly, the results show that limitations encountered lie with the co-operative members themselves. Those interviewed state that it is necessary to gain familiarity with the social context in the respective country, eliminating the present gap in knowledge on the part of co-operative member. Such uncertainty and lack of knowledge has resulted in a certain shortness of will in promoting the social model abroad.

Secondly, there is evidence of limitations at the subsidiaries, which to date have not assumed a strong commitment on the social dimension. The absence of certain variables monitoring policy is essential to the high turnover existence; in the cases in which this is

measured and managed, no reference is used as regards what occurs at the remainder of other production plants in the country. Practically all the managers state that at their respective plant there is a low staff turnover for the country, although in some of those sites where measurements have been taken the levels exceed 60%.

At the same time, the managers state that staff turnover is identified as one of the key elements that limit the social dimension of the project, and that progress could be made with the formation of a salary policy dissimilar from that of the immediate environment.

These two points reveal the following:

- That remuneration at the subsidiaries is not greater than in the surroundings, with a high percentage existing of employees who see improved condition at other companies.
- The previous proceeding is improbable with the social dimension (let alone a sharing of a work culture) when a staff turnover is so high.
- The fact that the weight of labour over production costs is low (especially in those countries with cheaper unit labour costs), has adjusted the longstanding policy of commitment to staff at the parent co-operative.

Contrary to the usual argument that in certain countries staff turnover is unavoidable, there are cases within the Mondragon Group in all the countries examined (except China), that boast acceptable levels of 10%-20% or even lower rates of 0%-10%. Of the latter, the loyalty to the company is notable at those co-operatives that have recruited female workers to the assembly line.

Collectively, the results obtained from the interviews do not place excessive importance on other limitations, such as the inexistence of employees that aspire to be co-operative members, and the legal barriers to implementing a co-operative structure in certain countries.

### 8.3.3.2 Initiatives to expand co-operative principles abroad

Firstly, the expatriate managers highlight the importance of recruiting local employees to the management team of the subsidiaries. Such an affirmation requires careful interpretation, given that it should be combined with the fact that the role of the expatriates is identified as one of the fundamental success factors. Hence, in agreement with the interviews, the expatriate managers emphasise the fundamental nature of their role, while recruiting local managers from the very first day that should in the medium term be able to take on management roles themselves. In each country and at each co-operative this role can be taken on earlier or later, with a discrepancy existing in the timing necessary for such an overlap. Managers state that in a period from three to five years a plant can be managed by a completely local team, though in the case of China some suggest that the time required is at least 10 years.

Secondly, another notable point is that of the role played by Mondragon Unibertsitatea, Alecop and Otalora. The expatriate interviewees consider it necessary for the University to forge international agreements that enable a two-way movement of employees of different nationalities between Mondragon and the respective production plant abroad. Such programmes could be accompanied by educational centres or agreements with other institutions in the country to provide a ready talent pool of personnel, both technically qualified and well versed in co-operative values.

Also highlighted is the need to introduce mobility and international career plan models that allow the fostering of learning opportunities, as well as exchanges among different plants to optimise knowledge management at each global co-op. It should be pointed out that a significant number of expatriates anticipate their return to the Basque Country, and that subsequent reintegration into the parent co-operative structure is difficult. Some mention a change to another co-operative, or even a move to other companies at which their international experience could be highly valued. All of this emphasises the present weakness of human resource policy at the parent co-operatives.

Expatriate managers also highlight the awareness and communication, stating that it is necessary to take the international dimension to the media (TU Lankide), at the same

time as creating new information channels (such as a newsletter, internet / intranet and blog) that are more suitable for the global environment, available in various languages and bidirectional.

Finally, there is the passing of time, something that is undoubtedly an important factor to be managed. There are diverse opinions among the interviewees on what should be the pace of assimilation abroad, although all agree on the need to progress at a greater or less rate as regards the circumstances and the degree of absorption at the production plant abroad.

#### **8.3.4 Phase III: Best practices of the Mondragon production plants in emerging countries. Case studies**

The last phase of research sought answers to the following questions:

- Which are those best practices in CSR management performed at the subsidiaries coherent with co-operative philosophy? Are they to be practiced only in specific countries, or is it possible to assume co-operative principles abroad for every country?
- Is there any subsidiary best practice which assumes every co-operative principle abroad, or until now best practices include co-operative principles partially?

As a result of visits to and the analysis of the productive plants in emerging economies, seven “holistic case studies”<sup>172</sup> with some of the best practices in CSR management coherent with co-operative philosophy have been carried out.

The case studies with the main particularities are the following:

- Orkli Ch (China): In this case, the most notable points are a proactive strategy as a response to the future threat of China, its management model and commitment to quality control, as well as its innovative capacity in the combination of automated production at the parent co-operative with the manual and flexible of China.

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<sup>172</sup> For further detail see section 2.2.3 in Chapter 2.

- Irizar-TVS (India): The main points of note are the international transfer and assimilation of a participative management model with a high commitment to communication, its own remuneration system and profit sharing schemes. This model features significant progress of success in productivity, quality, sales, innovation and financial results. This plant was chosen as it was the only one operative in India, although similar results have also been found at Irizar in Brazil and Mexico.
- Copreci CZ (Czech Republic): As a consequence of organisational change at the Copreci Group in 2004, a global organisational model has been formulated, involving international professional careers with internationally experienced managers at the parent co-operatives and local managers at the production plants abroad, thus commencing development of the figure of collaborator co-operative member.
- Fagor Ederlan Brasileira (Brazil): In this case, the highlighted points are social equity with annual monitoring indicators at the subsidiary, its employee health and safety policy, its proximity to the local co-operative movement, and the fact that it is the sole Mondragon production plant abroad where the possibility of transforming it into a second level mixed co-operative has been studied.
- Fagor MasterCook (Poland): The production plant stands out as the sole example that includes union representatives in the board of directors, the positive consequences of organisational change (towards a global model with local autonomy) on account of the acquisition of Brandt in 2005, as well as its process of adaptation-integration of business culture.

Cluster groups abroad: These have recently started to take shape with a new model of inter-cooperation among co-operative production plants abroad, as the cases of Kunshan, Queretaro, Olomouc and Wrocław show. Depending on the distance and relationship among subsidiaries, various contexts and models exist. Seemingly after having measured the possible synergies, it is noticeable that certain business parks are made up of solely Mondragon organisations (such as the case of Kunshan), an occurrence that strengthens the transmission of co-operative principles.

In the management best practice case studies, the following initiatives were those of most significant note (grouped under the objectives below):

- **Business management that optimises the synergies between the global and local dimensions of the co-operative:** Initiatives identified include the redefinition and development of a global business strategy, the formulation of a global business model and global structure that involves international professional careers, the existence of a common project with shared values, the synergies associated with automated production models and more flexible working practices, and the importance of defining an open and transparent transfer pricing policy.
- **Worker conditions:** The case studies have revealed policies that, in addition to assuring compliance with health and safety law, have implemented initiatives such as the following: social equity monitored by social indicators, the formulation of an independent and transparent remuneration policy, the measurement and creation of salary packages exceeding those at neighbouring companies, and investment in employee technical training and professional development. These have allowed for workforce turnover levels to be brought under control, something that is considered crucial in progressing with the social dimension of the project.
- **Employee participation in management:** Transparent and participative initiatives are evident in the periodic information provided by the production plant activity, the holding of an annual general assembly, the existence of an organisational structure comprising of self-managed groups and the management of the plant in the hands of local people, as well as representation in the management bodies at the production plant.
- **Employee participation in profits:** In spite of not having advanced significantly, some cases include a remuneration based on plant results for every employee; one co-operative has implemented a profit sharing policy at the subsidiary to the amount of 30%, similar to the profits sharing amount at the parent co-operative.
- **Employee participation in ownership:** There are found only a few instances of employee ownership in the cases submitted to analysis. However, the

collaborator-member has been introduced in a few production plants abroad at management positions<sup>173</sup>.

- **Communication and awareness policy:** At the case studies examined, exchange programmes are found between the production plant abroad and the parent co-operative, momentary or periodic visits to the site by the Board, in addition to the availability of global and local publications, and digital communication tools.
- **Inter-cooperation across subsidiaries:** To date, such inter-cooperation has been based on personal relationships, although in 2006 it began to take shape in four clusters abroad in Kunshan, Queretaro, Olomouc and Wrocław. This has been identified as a new inter-cooperation path with significant potential. However, to bring to live its potential results, it appears that it will be necessary to provide it with a certain structure and organisation.
- **Commitment to the local surroundings:** This is arguably the objective, in the best practice analysis, that has seen the lowest degree of progress. Financial provision to social projects in the surroundings of the production plants is fleeting and symbolic, not having advanced substantially either in the possible exchange programmes with universities and other educational establishment, or in the development of Mundukide social projects in the vicinity of the plant.

Empirical analysis of success cases allows the following to be affirmed:

- Success factors in CSR management coherent with co-operative philosophy are evident in all the cases analysed (Brazil, China, India, Mexico, and those of east-central Europe); this reveals that it is possible to progress in the social dimension of the international projects in any country.
- No case has been identified where the principles of employee participation in management, profits and ownership and a commitment to the location have been completely assumed. Experiences are partial, and complementary among themselves.

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<sup>173</sup> The case study of the Eroski Group and its expansion all over Spain has been analysed, although not included in the final document represents an important example to be implemented for employees' ownership participation in industrial co-operatives abroad. This case study will be included in future research papers.

#### 8.4 RESEARCH HYPOTHESIS ACCEPTED

From all this can be seen that the research is based on empirical evidence gathered from examination of the activity of the industrial co-operatives of the Mondragon Group during the period 1999-2006, featured in chapters four, five, six and seven. It propounds the theory that those co-operatives that implement a strategy of international multi-localisation of production through foreign direct investment (FDI) defend more effectively the stability of the local community against the threat of globalisation (that is to say, a reduction in employment or plant closure) by increasing competitiveness, at the same time as generating wealth through the creation of employment abroad.

Given that the study is principally of a descriptive nature, direct causal relationships cannot be established between the generation of employment and the strategy of multi-localisation. Based on the *propensity score matching* methodology examined in chapter four, a deeper study of the causal relationships existing could be undertaken in the future. The objective on this occasion, though, has been to show the complementary nature of the generating of wealth, both in the environment of the parent co-operative and that of the production plants abroad.

Therefore, as a result of the conclusions reached from phase I, II and III could be concluded that the hypothesis is rightly proved, and so that “The strategy of international production multi-localisation of the Mondragon industrial co-operatives has defended the stability of the local community by creating co-operative and non-co-operative employment, alongside with a concurrent improvement in competitiveness; furthermore, by means of new job creation it has also enabled wealth growth in emerging countries, providing also certain best practices in CSR management coherent with co-operative philosophy”.



## 8.5 FUTURE RESEARCH

Brief scheme of recommended future projects associated with this research:

### 8.5.1 Development of a shared global co-operative project model

As a consequence of the best practices implemented abroad by the Mondragon Group production plants analysed, the formulation of a common global co-operative project model has to integrate the following aspects:

- The structure of a group at the level of the respective co-operative (for example, the Copreci Group or the Irizar Group), founded on the basis of a sustainable global strategy that allows synergies to be achieved from the local successes of production plants abroad, local successes of the parent co-operative, and success of the global structure.
- Analysis of international transfer of the new corporate management model of the Mondragon Group (2007) to the production plants abroad.
- Examination of an international participatory ownership model for industrial co-operatives, inspired by the domestic expansion model formulated by the Eroski Group.
- Study of the policy of commitment to the surroundings of the co-operatives, integrating and aligning the educational dimension of Mondragon Unibertsitatea at the location where the production plants are found.
- Analysis of the adaptation of the historic model of inter-cooperation of the regional clusters of Mondragon to the international sphere, one that allows for optimisation of such inter-cooperation between production plants abroad.

### **8.5.2 Observatory of the global co-operatives of the Mondragon Group**

Annual monitoring of the evolution of the global co-ops, involving not only information included in the database prepared with evolution since 1999, but also adding to the present 25 those new co-operatives that take on their first international production venture.

Such an analysis would allow for a deeper understanding of the key traits of multi-localisation strategy in the mid- to long-term, as well as the existence of homogenous behaviour in the process of globalisation. In turn, this would permit the possible problems standing, faced by recent ventures to be anticipated, benefiting from the experience of more established operations.

Given the ongoing nature of analysis, one possible proposal could involve the foundation of an observatory that monitors the global co-ops.

### **8.5.3 A comparative study, examining employment generation at the Mondragon Group alongside other local, national and European MNEs.**

The endogenous study of employment generation in the Mondragon co-operatives should also be measured alongside the situation at other companies in the environment. This would involve analysis of the impact of FDI on employment at parent companies, in which the case of the Mondragon co-operatives would be compared with other organisations at three levels: the Basque Country, Spain, and Europe.

Such a study would allow for measurement of the contrasts existing in the commitment to stability in the local community of the Mondragon co-operatives and that of other companies of a non-co-operative structure.

It would involve application of the propensity score matching methodology featured in chapter four, drawing on the same methods developed in the analysis of French and Italian companies in another study (Barba Navaretti et al. 2006).

Diverse analysis alternatives exist, involving the following characteristics of the database used:

- Company social activity indicators: These would include the prospect of measuring exclusively net employment growth, or perhaps including data on company financial performance.
- Company typology: This would encompass, amongst others, companies in general or specific industrial sectors, foreign companies versus autochthonous companies, and co-operative companies versus companies in general.
- Regional framework: the companies would involve study of the Basque Country, or Spain, or Europe.

#### **8.5.4 Causal analysis and determining factors in employment growth in the Mondragon Group under globalisation**

This would include the descriptive study carried out here, incorporating a causal analysis, and allowing for identification and measurement of the factors (such as size and reasons) that could be found in the present economic and social success of the strategy of international multi-localisation of the Mondragon Group. The present study has been limited to observation of what has happened; to be able to anticipate the evolution of the strategy for the future it will be necessary to undertake a deeper study analysing why this phenomenon has occurred.

### **8.5.5 Theoretical formulation of a new global co-operative model**

Given the paradigmatic nature of the Mondragon Group model and its international expansion, it is possible to offer a theoretical reflection on its characteristics and particularities alongside that of the international social enterprise.

Such a definition would incorporate the international co-operative context in keeping with a present Global 300 project undertaken by the International Co-operative Alliance (ICA), in which the Mondragon Group is placed in the spheres of industrial, mixed and retail co-operatives.

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## **APPENDIX**

- APPENDIX I: INTERVIEWS QUESTIONAIRE
- APPENDIX II: INTERVIEWS CONDUCTED AND FACTORIES VISITED

***APPENDIX I: INTERVIEWS QUESTIONNAIRE***

## INTERVIEW OUTLINE FOR MONDRAGON PRODUCTION PLANTS ABROAD

Thank you: First I would like to sincerely thank you for your help, without which it would be impossible to carry out this research project.

Explanation of the research project: show and explain the document and background materials and objectives for interview.

Share or show on Computer copy of interview support materials

### Interview structure explication:

- This is an open interview model, not a survey, its objective is to get to know and understand how things work in the subsidiaries, especially the social and human dimensions.
- Please try to be as spontaneous and as open as possible so that we can imagine the situation is this company from your point of view.
- As you will soon see the interview follows a logical outline in order to measure response indicators, although the questions are open ended in each one you will be asked to grade or place a numerical value on the particular practice or policy of the company.
- The interview will consist of the following sections.
  - 1 Motivation for establishing a production plant abroad (15 min).
  - 2 Current situation in the production plant (10 min)
  - 3 People management and human commitment (15 min)
  - 4 Codes of Conduct and Social Responsibility (15 min)
  - 5 Co-operative principals in the production plant (15 min)
  - 6 Limitations and initiative to the expansion of the co-operative model of Mondragon (15 min).
  - 7 Trends in the meaning and interpretation of the co-operative model of Mondragon (10 min).
- Complete the participant bio section. (5 min)
- The interview will last at most 2 hours, if at any time you wish to stop or take a break please let me know.
- The interview will be recorded so that it can be referenced for purposes of research. It is however, totally confidential.
- The information collected in this interview will be used to write a doctoral thesis and will be handled with strict confidentiality. The information relating to your company will be made accessible at any moment prior to publication.

Any questions? If at any point in the interview you have any questions or comments or you do not understand something feel free to let me know before responding.

## 1 MOTIVATION FOR ESTABLISHING THE FOREIGN SUBSIDIARY (15min)

**We start by looking at various aspects related to the origin and first step of implementation of the project abroad.**

1.1 Out of what context does the initiative to expand to (China, India,...) come? \_\_\_\_\_

Which one of the following reasons describes best the original motive for expanding to (China, India,...)?

- It was done without any clear plan. The opportunity presented itself, and we acted quickly.
- Big customers purchase on a global scale and they want to purchase directly from the producer, without intermediaries. This fact forced us to set up our own plant abroad.
- The need to go to (China, India,...) is a result of the re-segmentation of demand for certain products. The geographical migration of important customers requires producing nearby. In addition the cost of producing in (China, India,...) is less.
- Your industrial sector is globalized, with multinational competitors. This lead to the need of entering new markets.
- A customer explicitly requested it.

1.2 Why did the company establish a plant in (China, India,...)? \_\_\_\_\_

1.3 Which one of the following statements describes best the reason for undertaking your project in (China, India,...)?

- It was done without a clear plan, the opportunity presented itself, and action was quickly taken. It was by chance, in order to hit the ground running and starting learning the terrain.
- In order to reduce production costs, mostly labor costs, because we are not competitive producing at the parent company.
- A new, larger market as well as a share of that market. An opportunity was exploited while at the end it may result in better costs.
- In order to satisfy the request of a strategic customer.
- It was necessary to leave because of the increasingly high costs of producing at home.
- In order to give us some breathing room. However if we aren't competitive, the internationalization process doesn't solve anything.



- To increase sales in other markets with high barriers to entry: tariffs, distance, cost advantages of local producers, etc.

1.4 At the moment when the creation of the plant was getting underway, how would you rate the importance that each of following facts had:

(For each point indicate if it was “negative” or “positive” and their relative importance from 1 to 5, 1 being “insignificant” and 5 “highly important”)

- Being a co-operative where the members of the parent company are also workers \_\_\_\_\_

Positive  Negative  Insignificant   1  2  3  4  5 Highly Important

- The role of the Board of Directors \_\_\_\_\_

Positive  Negative  Insignificant   1  2  3  4  5 Highly Important

- The social responsibility of the company: ethical principles regarding suppliers, work conditions, economic practices, etc. \_\_\_\_\_

Positive  Negative  Insignificant   1  2  3  4  5 Highly Important

- The opportunity to spread co-operative principals and values internationally \_\_\_\_\_

Positive  Negative  Insignificant   1  2  3  4  5 Highly Important

- The role of strategic agreements and availability, and openness to local partners \_\_\_\_\_

Positive  Negative  Insignificant   1  2  3  4  5 Highly Important

- Was there a local partner or was an agreement reached with another party before the project got off the ground?

Yes  No

- The training and skills for and openness of our employs towards expanding activities abroad? \_\_\_\_\_

Positive  Negative  Insignificant   1  2  3  4  5 Highly Important

- Was it necessary to hire personne for the project specifically in the parent co-operative?

Yes  No

- Knowledge of local culture (Chinese, Indian,...) as well as business practices and the differences with our codes of conduct \_\_\_\_\_

Positive  Negative  Insignificant       Highly Important

Was it necessary to hire people with knowledge of local language or teach it within the parent co-operative?

Yes  No

- An understanding of the market that we would be coming up against, not just from a distance but “up close”, with in country visits to get an idea of where we were going. \_  
Positive  Negative  Insignificant       Highly Important

Was it necessary to high consultants specifically for these first visits to (China, India,...)?

Yes  No

Did you rely on the assistance of SPRI' s office to get the project off the ground?

Yes  No

If yes, please rate their service

Positive  Negative  Insignificant       Highly Important

Did you rely on the assistance of MCC' s office to get the project off the ground?

Yes  No

If yes, please rate their service

Positive  Negative  Insignificant       Highly Important

## 2 CURRENT SITUATION IN THE SUBSIDIARIES (10 min)

Now that we have identified the key factors in the process of establishing the production plant in (China, India,...), we will now look at various aspects related to the current situation in the plant as well as the management practices there.

2.1 How would you evaluate the importance of this production plant in the co-operative' overall strategy? \_\_\_\_\_

- Extremely important: It is crucial for the competitiveness of the company at this moment.
- It is important: it is strategic for the company right now and in the short-mid term.
- Complementary: it dovetails with the strategy of the company for the near future.
- It is a future investment: it is middle to long term investment for the future of the company.

2.2 How would you rate the importance of the following factors in the function of the company today?

*(For each item please rate its importance from 1 to 5, 1 being “insignificant” and 5 “highly important”)*

*(Please then rate from your personal point of view the policy or strategy of the company relating to each aspect from 1 to 5, 1 being “very bad” and 5 being “very good”)*

### Physical Location

- The location of the company, its relative nearness to big cities (Shanghai, Mumbai, Mexico DF, etc...) \_\_\_\_\_

Importance **1 2 3 4 5** Policy / Strategy **1 2 3 4 5**

- Location of the company, relative nearness to customers and suppliers \_\_\_\_\_

Importance **1 2 3 4 5** Policy / Strategy **1 2 3 4 5**

### People

- The displacement of so-called “expatriate” employees and their role as leaders in the project \_\_\_\_\_

Importance **1 2 3 4 5** Policy / Strategy **1 2 3 4 5**

- The ability of the “expats” as well as other managers who come periodically to speak the local language (Chinese, Polish,...) \_\_\_\_\_  
Importance 1 2 3 4 5 Policy / Strategy 1 2 3 4 5
- The cultural differences that exist as well as the ways in which coordination and management of employees workers is carried out. \_\_\_\_\_  
Importance 1 2 3 4 5 Policy / Strategy 1 2 3 4 5
- The role of local employees (Chinese, Indian,..) and their participation in the coordination and management of people inside the company \_\_\_\_\_  
Importance 1 2 3 4 5 Policy / Strategy 1 2 3 4 5
- The role of local employees (Chinese, Indian,..) and their participation in the coordination and management of suppliers \_\_\_\_\_  
Importance 1 2 3 4 5 Policy / Strategy 1 2 3 4 5
- The role of local employees (Chinese, Indian,..) and their participation in the coordination and management of customers and sales \_\_\_\_\_  
Importance 1 2 3 4 5 Policy / Strategy 1 2 3 4 5

### Training

- Training of “expatriate” employees and “temporary displaced employees” in local business practices and language \_\_\_\_\_  
Importance 1 2 3 4 5 Policy / Strategy 1 2 3 4 5
- Training of local employees (Chinese, Indian,..) in management, including sending them to the parent co-operative \_\_\_\_\_  
Importance 1 2 3 4 5 Policy / Strategy 1 2 3 4 5
- Technology training for local employees (Chinese, Indian,..) at the factory wide level. \_  
Importance 1 2 3 4 5 Policy / Strategy 1 2 3 4 5

### Technology, accounting, control, employees, members...

- Technology transfer from the parent co-operative \_\_\_\_\_  
Importance 1 2 3 4 5 Policy / Strategy 1 2 3 4 5

- Accounting practices and price transfer policy \_\_\_\_\_  
 Importance 

1	2	3	4	5
---	---	---	---	---

 Policy / Strategy 

1	2	3	4	5
---	---	---	---	---
  
- Financial control over the company and the control over managerial decisions.  
 \_\_\_\_\_  
 Importance 

1	2	3	4	5
---	---	---	---	---

 Policy / Strategy 

1	2	3	4	5
---	---	---	---	---
  
- The role of strategic partners in the country (China, India,...) \_\_\_\_\_  
 Importance 

1	2	3	4	5
---	---	---	---	---

 Policy / Strategy 

1	2	3	4	5
---	---	---	---	---
  
- Technology support and tools for coordinating management with the parent co-operative \_\_\_\_\_  
 Importance 

1	2	3	4	5
---	---	---	---	---

 Policy / Strategy 

1	2	3	4	5
---	---	---	---	---
  
- The company's ethical codes of conduct as well as the importance of Corporate Social Responsibility in the country (China, India,...) \_\_\_\_\_  
 Importance 

1	2	3	4	5
---	---	---	---	---

 Policy / Strategy 

1	2	3	4	5
---	---	---	---	---

### 3 The human element (15 min)

Now we are going to deal with various aspects related to the company, including labor conditions and participation models.

#### Work Condition

3.1 How would you describe the “**Wage scale policy for local employees**” in the production plant \_\_\_\_\_

3.2 How would you describe the “**Benefits policy for local employees**” in the production plant \_\_\_\_\_

3.3 How would you describe the “**Health and Safety Policy**” in the production plant \_\_\_\_\_

3.4 How would you describe the “**Work day length policy**” in the production plant \_\_\_\_\_

3.5 How would you describe the “**Workforce Training Policy**” in the production plant \_\_\_\_\_

3.6 How would you describe the “**Internal communication policy**” in the production plant \_\_\_\_\_

3.7 How would you describe the “**Policy relating to collective bargaining by employees**” in the production plant \_\_\_\_\_

3.8 How would you describe the “**Policy relating to local employees’ participation in decision making**” in the production plant \_\_\_\_\_

3.9 How would you describe the “**Policy relating to participation of local employees in the management and governing bodies**” in the production plant \_\_\_\_\_

3.10 How would you describe the “**Policy relating to profit-sharing with employees**” in the production plant \_\_\_\_\_

3.11 How would you describe the **“Policy relating to employee participation in ownership”** in the production plant \_\_\_\_\_

**Working conditions of expatriates**

3.12 How would you describe the **“Wage policy for expat employees”** in the production plant? \_\_\_\_\_

3.13 How would you describe the **“Benefits policy for expat employees”** in the production plant? \_\_\_\_\_

3.14 How would you describe the **“Policy relating to expat employees training”** in the production plant? \_\_\_\_\_

3.15 How would you describe the **“Policy of finding new positions for expat employees ”** in the co-operative \_\_\_\_\_

3.16 How would you describe the **“Policy coordinating and managing expat employees”** in the \_\_\_\_\_ co-operative  
\_\_\_\_\_

#### 4 **CODES OF CONDUCT AND CORPORATE SOCIAL RESPONSIBILITY (15 min)**

**Below we are going to look at the various issues relating to the current situation in the production plant in order to obtain a better understanding of the codes of conduct.**

4.1 How would you describe **the commitment to the environment** at the production plant starting with the following examples:

- Pollution: smoke and other gas and liquid emissions and effluents.
- Intensive use of no renewable resources.
- Preventative measures to avoid environmental accidents.
- Others...

4.2 How would you describe **the commitment to local community** at the production plant starting with the following examples:

- Sponsorship of events, sports teams cultural clubs, etc.
- Education: a commitment to training programs in the local environment and agreements with university and training centers.
- Social integration: initiatives to support the integration of culturally excluded groups.
- Others...

4.3 How would you describe **policy relating to just or ethical commercial practices** at the production plant starting with the following examples:

- Consumer rights
- Ethical advertising and promotions.
- Acoache of the power in negotiations.
- Facts of preferential agreements with governments and institutions.
- Others...

4.4 How would you describe **policy regarding relations with government** at the production plant starting with the following examples:

- Following the laws of the local country
- Following international laws
- Payment of all taxes
- The role of government and creation of extra-legal agreements.



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4.5 How would you describe **financial and accounting ethics** at the production plant starting with the following examples:

- Distribution of dividends
- Transfer prices
- Accounting practices for investments and divestments.
- Others...

4.6 How would you describe **the commitment to innovation management and technology transfer** at the production plant starting with the following examples:

- Distribution of dividends
- Transfer prices
- Accounting practices for investments and divestments.
- Others...

## 5 Co-operative principals in the production plants abroad (15 min)

First we will try to understand the keys to success of your project as a means of inspiring the process of internationalization of the co-operatives.

**Cooperative Principles Form**

Which of the following statements best expresses the current policy of the company.

There is a specific commitment in the company and measures are being taken to see that it is implemented.

There is an explicit commitment but no concrete steps have been taken.

Such a commitment exists and it consists of meeting legal requirements

No such commitment exists, but we attempt to respect the law to the extent possible.

How would you rate its importance for the project in China from 1 to 5? How would you rate the company's policy in this regard?

Degree of importance  1  2  3  4  5      Company's policy  1  2  3  4  5

Do you believe that to be consistent with this policy we must introduce improvements?

YES       NO

What improvements or additional measures could be put into place?  
\_\_\_\_\_

What do you think are the principle barriers to this being done?  
\_\_\_\_\_

### 5.1 How would you define the “open and voluntary character” of the company?

- Has the possibility of associating oneself with the company beyond being a simple employee, when this is offered to some employees?

Yes       No  Insignificant  1  2  3  4  5 Highest Importance

- The subject of incorporating the employees in the production plant abroad into the co-operative has been brought up in the general assembly?

Yes       No  Insignificant  1  2  3  4  5 Highest Importance

- Others: \_\_\_\_\_

5.2 How would you define “**Democratic control by workers**” of the plant with one of the following terms:

- The participation of workers in discussions about the project of producing abroad.
- Management positions for local employees (Chinese, Indian,...).
- The percentage of local employees (Chinese, Indian,...) who voluntarily participate in company management boards.
- The percentage of work hours set aside for councils or for co-operative training.
- The percentage of blue-collar employees on councils.

5.3 How would you define “**Economic participation of worker members**” with one of the following terms:

- Relatively small variation between highest and lowest paid workers.
- Rate of absenteeism and overtime.
- Similarity of salaries to the average for the area.
- Percentage of company equity that is “social equity”.

5.4 How would you define “**Independence and autonomy**” with one of the following terms:

- Percentage of sales that the three biggest customers represent.
- Percentage of sales to the parent company or to other subsidiary of the company.
- Amount of independence from local financial institutions.
- Amount of economic independence from the parent co-operative.

5.5 How would you define la “**Education, Training and information**” with one of the following terms:

- Percentage of profits dedicated to educational activities.
- The amount of money spent on education for direct workers vs. the amount spent on the plant as a whole.
- The existence of channels of information particularly with access to information relating to profitability.

5.6 How would you define “**Cooperation among co-operatives**” with one of the following terms:

- Distribution of profit among subsidiaries of the same parent company.
- Common inter-co-operative funds for subsidiaries in the country (China, India,...).
- The transfer of workers between co-operative subsidiaries in the country (China, India,...).

5.7 How would you define “**Commitment to community**” with one of the following terms:

- Annual growth in the workforce.
- Percentage of the profit reinvested in the company.
- Percentage of the profit used for community projects.
- Investment in environmental projects.
- Percentage of the profit that belongs to the employees.

## 6 Limitations and incentives to expand the Mondragon co-operative model (15 min)

Below we will try to identify and to rate the limitations and incentives that influence the evolution of the subsidiaries towards a model that is coherent with co-operative principles.

Identify the most important limitations to the application of the co-operative principles.

<b>LIMITATIONS FOR EXPANDING COOPERATIVE VALUES ABROAD</b>	<b>Importancel</b>
<b>1</b> Legal limitations	1   2   3   4   5
<b>2</b> Lack of potential worker owners	1   2   3   4   5
<b>3</b> Impossibility of workers making initial contribution to capital	1   2   3   4   5
<b>4</b> Lack of cooperative training in local workforce	1   2   3   4   5
<b>5</b> Lack of cooperative training in ex-patriot workforce	1   2   3   4   5
<b>6</b> Lack of understanding of local culture.	1   2   3   4   5
<b>7</b> Insufficient desire of the worker owners in the parent coop.	1   2   3   4   5
<b>8</b> Lack of knowledge of the worker owners about the reality of The situation in China.	1   2   3   4   5
<b>9</b> It is believed that the Chinese workers don't have the same rights or obligations as the Basque.	1   2   3   4   5
<b>10</b> The potential loss of control in subsidiary	1   2   3   4   5
<b>11</b> The lack of or limited profitability of the plant limit the ability to consider this possibility now.	1   2   3   4   5
<b>12</b> Lack of time to deal with this possibility.	1   2   3   4   5
<b>13</b> Lack of real understanding of the financial situation of the plant due to accounting practices.	1   2   3   4   5
<b>14</b> The need to promote actions that limit or stop the deslocalization and loss of jobs in Euskadi makes it impossible to Consider this possibility right now.	1   2   3   4   5
<b>15</b> Disinterest of Chinese workers and the local community.	1   2   3   4   5

**Identify the biggest incentives or best initiatives for applying the co-operative principles.**

<b>INCENTIVES AND INITIATIVES FOR EXPANDING COOPERATIVE VALUES ABROAD</b>	<b>Importance</b>
<b>1</b> Increased support role for MCC delegation in China	1 2 3 4 5
<b>2</b> Regional groups of coop subsidiaries or localization in shared industrial parks.	1 2 3 4 5
<b>3</b> Local training initiatives to serve a similar role as MU	1 2 3 4 5
<b>4</b> Articulation of the legal structure of the double key: which will increase participation in management, ownership and profit-sharing, which promote loyalty to the coop.	1 2 3 4 5
<b>5</b> Incorporation of local workforce into management positions in the Subsidiary.	1 2 3 4 5
<b>6</b> Training of potential managers in the parent cooperatives Of MCC.	1 2 3 4 5
<b>7</b> Cross-cultural educational experiences and internships with exchanges of future Chinese and Basque workers.	1 2 3 4 5
<b>8</b> Send Chinese workers to the parent cooperative to learn.	1 2 3 4 5
<b>9</b> Time needs to pass before this can be done.	1 2 3 4 5
<b>10</b> Replication of other similar management models from around the world.	1 2 3 4 5
<b>11</b> Creation of groups to debate issues related to cooperativism in China displaced and Chinese workers.	1 2 3 4 5
<b>12</b> Joint financing and sponsorship of community projects among various subsidiaries.	1 2 3 4 5
<b>13</b> Creation of communication and awareness campaigns About the social reality of the subsidiaries inside the parent coop.	1 2 3 4 5

### 6.1 Trends in the meaning of the Mondragon co-operative model (5 min)

Finally, I would like to rate the following statements from 1="disagree completely" to 5="agree completely":

Statements about trends of the cooperative model	Rating
1 Applying the Mondragón model abroad is impossible	1 2 3 4 5
2 It is possible to develop new business structures inspired by cooperative principles and values that can be applied transnationally	1 2 3 4 5
3 In order to advance cooperative values in the future it is necessary to take steps today that go against natural tendencies.	1 2 3 4 5
4 It is necessary that each worker in the cooperatives understand that they form part of a business project that is focused on people.	1 2 3 4 5
5 It is necessary to make worker-owners from the parent cooperatives aware of the social reality of the local environment of the foreign subsidiaries.	1 2 3 4 5
6 Those of us who work in the cooperatives have to be respectful of and coherent with the legacy of the cooperative movement and those who came before us during its 50 years of history.	1 2 3 4 5
7 The rights and responsibilities of workers in Euskadi and China should be the same in relation to the socio-economic reality of each country.	1 2 3 4 5
8 A cooperative is defined by its legal structure but by the shared values of its workers.	1 2 3 4 5
9 The spirit of cooperativism can be summed up by the following values: SHARING: our work and our social project, RECOGNITION: based on being and doing, not having, DEMOCRACY: in the organization of work and decision making, and SOLIDARITY: renouncing some possible privileges in favor of those who have less.	1 2 3 4 5
10 It is necessary to development business models and legal structures that allow participation in management and ownership by workers, regardless of nationality or location.	1 2 3 4 5

### Participant Bio and Interview Info

#### **Mondragon Multi-localisation Strategy: Innovating a Human Centred Globalisation**

UNDERSTANDING GLOBALIZATION – BUSINESS LEADERS QUESTIONNAIRE

CHINA 2006 - INDIA 2006 - BRAZIL 2007 - MEXICO 2007 - EASTERN EUROPE 2007 - TURKEY 2007

**CO-OPS\_1.0**

#### **BIO OF INTERVIEW PARTICIPANT**

Name:

Professional title:

Co-operative:

Web:

Address if subsidiary in China:

Email:

Contact Number:

Interested in receiving study results:

Interested in participating in a debate session:

#### **Interview Info**

Date:

Place:

Length of Interview:

Name of recording file:

Director: I. Irizar

PhD Candidate: JM Luzarraga

Co-director: D. Aranzadi

Mondragon University 2007



***APPENDIX II: INTERVIEWS CONDUCTED AND FACTORIES VISITED***

## INTERVIEWS IN CHINA

CATEGORY	GLOBAL COOP - COMPANY	COMPANY POST OR RESPONSIBILITIES	COUNTRY	CITY	DATE
MCC / case study	COPRECI	Copreci China CEO	CHINA	ZHUHAI	Dec-06
MCC / case study	COPRECI	Copreci China Quality Manager	CHINA	ZHUHAI	Jun-06
MCC / case study	IRIZAR	Irizar China General Coordinator	CHINA	TIANJIN	Jun-06
MCC / case study	WINGROUP	Wingroup China CEO	CHINA	SHANGHAI - SUZHOU	Sep-06
MCC / case study	WINGROUP	Wingroup China CEO (2001-05)	CHINA	KUNSHAN	Dec-06
MCC / visit-interview	FAGOR AUTOMATION	Fagor A. Asia CEO	CHINA	BEIJING	Dec-06
MCC / visit-interview	FAGOR AUTOMATION	Fagor A. China Manager	CHINA	BEIJING	Dec-06
MCC / visit-interview	FAGOR ELECTRODOMESTICOS	Fagor E. China JV Controller (2004-05)	CHINA	SHANGHAI	Sep-06
MCC / visit-interview	FAGOR ELECTRODOMESTICOS	Fagor E. China CEO	CHINA	SHANGHAI	Dec-06
MCC / case study	ORKLI	Orkli China CEO	CHINA	NINGBO	Jul-06
MCC / case study	ORKLI	Orkli China Production Manager	CHINA	KUNSHAN	Dec-06
MCC / case study	ORKLI	Orkli China Production Manager	CHINA	NINGBO	Sep-06
MCC / case study	ORKLI	Orkli China Interpreter	CHINA	NINGBO	Sep-06
MCC / case study	ORKLI	Orkli China blue collar employee	CHINA	NINGBO	Sep-06
MCC / case study	ORKLI	Orkli China blue collar employee	CHINA	NINGBO	Sep-06
MCC / case study	ORKLI	Orkli China Valves PM	CHINA	NINGBO	Sep-06
MCC / case study	ORBEA	Orbea China CEO	CHINA	KUNSHAN	Jul-06
MCC / case study	OIARSO	Oiarso China CEO	CHINA	KUNSHAN	Jul-06
MCC / visit-interview	DANONA	Danona China Purchases Director	CHINA	ZHUHAI	Dec-06
MCC / visit-interview	MCC China	MCC China Chief Representative	CHINA	SHANGHAI	May-06
MCC / visit-interview	MCC China	MCC Shanghai Manager	CHINA	SHANGHAI	Mar - Jun 2006
MCC / visit-interview	MCC China	MCC Shanghai PM	CHINA	SHANGHAI	Jul-06
MCC / case study	GRUPO DANOBAT	Danobat China Chief Representative	CHINA	BEIJING	Jun-06
MCC / case study	IMH Training Centre Director	IMH Training Centre Director	CHINA	TIANJIN	Jun-06
MCC / visit-interview	AMPO POYAM	Ampo Poyam China CEO	CHINA	SHANGHAI	Sep-06
visit - interview	Interchina Consulting	Interchina Consulting CEO	CHINA	SHANGHAI	Dec-06
visit - interview	SPRI China	SPRI China Chief Representative	CHINA	SHANGHAI	Jul-06
visit - interview	SPRI China	SPRI China PM	CHINA	SHANGHAI	Jun-06
University	CEIBS	CEIBS Vice President	CHINA	SHANGHAI	Sep-06
University	CEIBS	CEIBS Professor	CHINA	SHANGHAI	Aug-06
visit - interview	OFCOM Shanghai	OFCOM Shanghai Industry Dpt. Director	CHINA	SHANGHAI	Jul-06
visit - interview	COPCA	COPCA Hong Kong Chief Representative	CHINA	HONG KONG	Jun-06
visit - interview	IGEO Consulting	Igeo Consulting CEO	CHINA	SHANGHAI	Aug-06
visit - interview	ALKAR	Alkar China CEO	CHINA	SHANGHAI	Apr-06
visit - interview	BRUNNSWEILER	Brunsweller China CEO	CHINA	SHANGHAI	Jul-06
visit - interview	BRUNNSWEILER	Brunsweller China Quality Director	CHINA	SHANGHAI	Jul-06

## INTERVIEWS IN INDIA

CATEGORY	GLOBAL COOP - COMPANY	COMPANY POST OR RESPONSIBILITIES	COUNTRY	CITY	DATE
MCC / visit-interview	MCC	MCC India Chief Representative	INDIA	NEW DELHI	Oct-06
MCC / visit-interview	MCC	MCC India PM	INDIA	NEW DELHI	Oct-06
MCC / visit-interview	MCC	MCC India Purchasing Dpt. PM	INDIA	NEW DELHI	Oct-06
MCC / visit-interview	MCC	MCC India Purchasing Dpt. Director	INDIA	NEW DELHI	Oct-06
MCC / case study	IRIZAR	Irizar China General Coordinator	INDIA	TRICHY	Oct-06
MCC / case study	IRIZAR	Irizar-TVS CEO	INDIA	TRICHY	Oct-06
MCC / case study	IRIZAR	Irizar-TVS President	INDIA	TRICHY	Oct-06
MCC / case study	IRIZAR	Irizar-TVS Marketing Director	INDIA	TRICHY	Oct-06
MCC / case study	IRIZAR	Irizar-TVS PM	INDIA	TRICHY	Oct-06
MCC / case study	IRIZAR	Irizar-TVS Blue Collar employee	INDIA	TRICHY	Oct-06
MCC / case study	IRIZAR	Irizar-TVS Blue Collar employee	INDIA	TRICHY	Oct-06
MCC / case study	IRIZAR	Irizar-TVS White Collar employee	INDIA	TRICHY	Oct-06
MCC / case study	IRIZAR	Irizar-TVS White Collar employee	INDIA	TRICHY	Oct-06
MCC / case study	IRIZAR	Irizar-TVS White Collar employee	INDIA	TRICHY	Oct-06
MCC / visit-interview	FAGOR ELECTRONICA	Fagor Electronica India Distributor	INDIA	NEW DELHI	Oct-06
MCC / visit-interview	AMPO POYAM	Ampo Poyam India CEO	INDIA	NEW DELHI	Oct-06
visit - interview	COPCA	COPCA India Chief Representative	INDIA	NEW DELHI	Oct-06
visit - interview	GORATU	Goratu CEO	INDIA	MUMBAI	Nov-06
visit - interview	GORATU	Goratu Export Manager	INDIA	MUMBAI	Nov-06
visit - interview	IVEX	IVEX India Representative	INDIA	MUMBAI	Oct-06
visit - interview	LANTEK	Lantek India General Manager	INDIA	BANGALORE	Oct-06
visit - interview	RINDER TOOLS	Rinder Tools India CEO	INDIA	PUNE	Oct-06
visit - interview	RINDER INDIA	Rinder Tools India Manager	INDIA	PUNE	Nov-06
visit - interview	INDOLINK / SOFTWICK	Indolink CEO	INDIA	PUNE	Nov-06
University	INDIAN INSTITUTE of MANAGEMENT	IIM Professor	INDIA	BANGALORE	Oct-06
University	INDIAN INSTITUTE of MANAGEMENT	IIM Professor	INDIA	BANGALORE	Oct-06
University	INDIAN BUSINESS SCHOOL OF ECO.	NetImpact Hyberabad Chapter President	INDIA	HYBERABAD	Oct-06
visit - interview	INFOSYS	Infosys Pune PM	INDIA	PUNE	Nov-06
visit - interview	ASHOKA	Ashoka South Asia Director	INDIA	NEW DELHI	Oct-06
visit - interview	LANAS TRINIDAD S.A.	Ficosa India Representative	INDIA	NEW DELHI	Oct-06
visit - interview	BANCO SABADELL	Banco Sabadell India CEO	INDIA	NEW DELHI	Oct-06
visit - interview	OFCOM India	OFCOM India PM	INDIA	NEW DELHI	Oct-06
visit - interview	IVEX	IVEX India Chief Representative	INDIA	NEW DELHI	Oct-06
visit - interview	V.V. KALE & CO. charterer accountants	V.V.Kale CEO	INDIA	NEW DELHI	Oct-06
visit - interview	LAZER KEN IT SERVICE	Lazer Ken IT PM	INDIA	NEW DELHI	Oct-06

## INTERVIEWS IN BRAZIL

CATEGORY	GLOBAL COOP - COMPANY	COMPANY POST OR RESPONSIBILITIES	COUNTRY	CITY	DATE
MCC / visit-interview	MCC	MCC Brazil Chief Representative	BRAZIL	SAO PAULO	8-Jan-07
MCC / case study	FAGOR EDERLAN	Fagor Ederlan Brazil CEO	BRAZIL	SAO PAULO	9-Jan-07
MCC / case study	FAGOR EDERLAN	Fagor Ederlan Brazil HR Director	BRAZIL	EXTREMA	9-Jan-07
MCC / case study	FAGOR EDERLAN	Fagor Ederlan Brazil Financial Director	BRAZIL	EXTREMA	9-Jan-07
MCC / case study	FAGOR EDERLAN	Fagor Ederlan Brazil Production Director	BRAZIL	EXTREMA	9-Jan-07
MCC / case study	FAGOR EDERLAN	Fagor Ederlan Brazil Quality Manager	BRAZIL	EXTREMA	9-Jan-07
MCC / case study	FAGOR EDERLAN	Fagor Ederlan Brazil HR department	BRAZIL	EXTREMA	9-Jan-07
MCC / case study	DANOBAT	Danobat Brazil Chief Representative	BRAZIL	SAO PAULO	10-Jan-07
MCC / visit-interview	COPRECI	Copreci Brazil CEO (2003-06)	BRAZIL	TAUBATE	11-Jan-07
MCC / visit-interview	COPRECI	Copreci Brazil CEO	BRAZIL	TAUBATE	11-Jan-07
MCC / visit-interview	COPRECI	Copreci Brazil Production Director	BRAZIL	TAUBATE	11-Jan-07
MCC / visit-interview	CIKAUTXO PARANOA	Cikautxo Paranoa Financial Director	BRAZIL	DIADEMA	12-Jan-07
MCC / visit-interview	CIKAUTXO PARANOA	Cikautxo Paranoa CEO	BRAZIL	DIADEMA	12-Jan-07
MCC / visit-interview	ORKLI	Orkli Brazil CEO	BRAZIL	SAN BERNARDO	15-Jan-07
MCC / visit-interview	FAGOR AUTOMATION	Fagor A. Brazil CEO	BRAZIL	SAO PAULO	17-Jan-07
MCC / visit-interview	ULMA PACKAGING	Ulma Packaging Brazil Manager	BRAZIL	SAO PAULO	16-Jan-07
MCC / case study	IRIZAR	Irizar Brazil Production Director	BRAZIL	BOTUCATU	22-Jan-07
visit - interview	SPRI	SPRI Brazil Chief Representative	BRAZIL	SAO PAULO	9-Jan-07
visit - interview	CIESP	CIESP PM	BRAZIL	SAO PAULO	11-Jan-07
visit - interview	COPCA	COPCA Brazil Chief Representative	BRAZIL	SAO PAULO	16-Jan-07
visit - interview	CIE AUTOMOTIVE (Promoauto)	Cie Automotive Brazil Quality Manager	BRAZIL	TAUBATE	11-Jan-07
University	UNIVERSIDAD SAO PAULO	USPI Professor	BRAZIL	SAO PAULO	17-Jan-07
University	UNICAMP	UNICAMPI Professor	BRAZIL	SAO PAULO	16-Jan-07
visit - interview	MINISTERIO DO TRABALHO	Brazil Government Social Economy Director	BRAZIL	SAO PAULO	12-Jan-07
visit - interview	DIEESE	DIEESE Production Engineer	BRAZIL	SAO PAULO	22-Jan-07
visit - interview	UNISOL	Unisol President	BRAZIL	SAN BERNARDO	18-Jan-07
visit - interview	UNISOL	Unisol PM	BRAZIL	SAN BERNARDO	22-Jan-07
visit - interview	UNIFORJA S.Coop	Uniforja CEO	BRAZIL	DIADEMA	18-Jan-07
visit - interview	PLASTCOPPER S.Coop	Plastcopper President	BRAZIL	SAN BERNARDO	22-Jan-07
visit - interview	ANTEAG	Anteag PM	BRAZIL	SAO PAULO	12-Jan-07
visit - interview	VIDACOOOP	Vidacoop PM	BRAZIL	SAO PAULO	22-Jan-07
visit - interview	COOP FRIBURGENSE FERRATERA	Coop Friburgense President	BRAZIL	FRIBURGO - RIO	23-Jan-07
visit - interview	COOP FRIBURGENSE FERRATERA	Coop Friburgense CEO	BRAZIL	FRIBURGO - RIO	23-Jan-07
visit - interview	SESCOOP	Sescoop President	BRAZIL	RIO JANEIRO	22-Jan-07

## INTERVIEWS IN MEXICO

CATEGORY	GLOBAL COOP - COMPANY	COMPANY POST OR RESPONSIBILITIES	COUNTRY	CITY	DATE
MCC / visit-interview	MCC MEXICO	MCC Mexico Chief Representative	MEXICO	MEXICO DF	21-Feb-07
MCC / visit-interview	MCC	MCC NAFTA Director	MEXICO	MEXICO DF	21-Feb-07
MCC / case study	IRIZAR	Irizar Mexico General Coordinator	MEXICO	QUERETARO	11-Feb-07
MCC / case study	IRIZAR	Irizar Mexico Production Director	MEXICO	QUERETARO	11-Feb-07
MCC / case study	IRIZAR	Irizar Mexico blue collar employee	MEXICO	QUERETARO	11-Feb-07
MCC / case study	IRIZAR	Irizar Mexico white collar employee	MEXICO	QUERETARO	11-Feb-07
MCC / case study	EIKA	Eika Mexico CEO	MEXICO	QUERETARO	9-Feb-07
MCC / case study	ERREKA MEX	Matz Erreka Mexico CEO	MEXICO	QUERETARO	9-Feb-07
MCC / case study	MONDRAGON ASSEMBLY	Mondragon Assembly Mexico CEO	MEXICO	QUERETARO	9-Feb-07
MCC / visit-interview	FAGOR INDUSTRIAL	Fagor Industrial Brazil CEO	MEXICO	SAN LUIS POTOSI	13-Feb-07
MCC / visit-interview	FAGOR INDUSTRIAL	Fagor Industrial Brazil Financial Director	MEXICO	SAN LUIS POTOSI	14-Feb-07
MCC / case study	COPRECI	Copreci Mexico CEO	MEXICO	GUADALAJARA	15-Feb-07
MCC / case study	COPRECI	Copreci Mexico CEO (2002-06)	MEXICO	GUADALAJARA	15-Feb-07
MCC / case study	COPRECI	Copreci Mexico Purchases Manager	MEXICO	GUADALAJARA	15-Feb-07
MCC / case study	COPRECI	Copreci Mexico PM	MEXICO	GUADALAJARA	15-Feb-07
MCC / case study	COPRECI	Copreci Mexico blue collar employee	MEXICO	GUADALAJARA	15-Feb-07
MCC / visit-interview	ULMA AGRICOLA	ULMA Agricola Mexico Manager	MEXICO	MEXICO DF	20-Feb-07
MCC / visit-interview	ALECOP	Alecop Mexico Sales Manager	MEXICO	MEXICO DF	20-Feb-07
visit - interview	BASQUE GOVERNMENT	Basque Government Mexico Chief Representative	MEXICO	MEXICO DF	20-Feb-07
visit - interview	SPRI	SPRI Mexico Chief Representative	MEXICO	MEXICO DF	20-Feb-07
visit - interview	UR CONSULTING	UR Consulting PM	MEXICO	MEXICO DF	20-Feb-07
University	TECNOLOGICO MONTERREY	Tecnologico Monterrey Professor	MEXICO	QUERETARO	19-Feb-07
University	TECNOLOGICO MONTERREY	Tecnologico Monterrey Professor	MEXICO	QUERETARO	19-Feb-07

## INTERVIEWS IN EASTERN EUROPE AND TURKEY

CATEGORY	GLOBAL COOP - COMPANY	COMPANY POST OR RESPONSIBILITIES	COUNTRY	CITY	DATE
MCC / visit-interview	EIKA POLSKA	Eika Poland Financial Director	POLAND	WROCLAW	19-Jun-07
MCC / visit-interview	EIKA POLSKA	Eika Poland CEO	POLAND	WROCLAW	19-Jun-07
MCC / visit-interview	EIKA POLSKA	Eika Poland Production Director	POLAND	WROCLAW	19-Jun-07
MCC / visit-interview	EMBEGA POLSKA	Embega Poland General Manager	POLAND	WROCLAW	20-Jun-07
MCC / visit-interview	EMBEGA POLSKA	Embega Poland Factory Manager	POLAND	WROCLAW	20-Jun-07
MCC / visit-interview	EMBEGA POLSKA	Embega Poland white collar employee	POLAND	WROCLAW	20-Jun-07
MCC / visit-interview	TABIPLAST SP. ZOO	Tajo Poland General Manager	POLAND	WROCLAW	19-Jun-07
MCC / visit-interview	TREBOPLAST	Tajo Czech R. General Manager	CZECH R.	OLIOMOUC	22-Jun-07
MCC / visit-interview	COINALDE POLSKA	Coinalde Poland CEO	POLAND	JELCZ-LASKOWICE	20-Jun-07
MCC / case study	FAGOR MASTERCOOK (WROZAMET)	Fagor MasterCook Purchases Director	POLAND	WROCLAW	21-Jun-07
MCC / case study	FAGOR MASTERCOOK (WROZAMET)	Fagor MasterCook Production Manager	POLAND	WROCLAW	21-Jun-07
MCC / case study	FAGOR MASTERCOOK (WROZAMET)	Fagor MasterCook HR Director	POLAND	WROCLAW	21-Jun-07
MCC / case study	FAGOR MASTERCOOK (WROZAMET)	Fagor MasterCook Purchases PM	POLAND	WROCLAW	21-Jun-07
MCC / case study	FAGOR MASTERCOOK (WROZAMET)	Fagor MasterCook PM	POLAND	WROCLAW	21-Jun-07
MCC / case study	FAGOR MASTERCOOK (WROZAMET)	Fagor MasterCook Quality PM	POLAND	WROCLAW	21-Jun-07
MCC / visit-interview	FAGOR INDUSTRIAL POLSKA	Fagor Industrial Poland CEO	POLAND	WARSAW	29-Jun-07
MCC / visit-interview	ULMA BAUMA	Ulma Bauma General Manager	POLAND	WARSAW	29-Jun-07
MCC / visit-interview	CIKAUTXO CZ	Cikautxo Czech R. CEO	CZECH R.	LIBEREC	24-Jun-07
MCC / visit-interview	MAIER CZ	Maier Czech R. CEO	CZECH R.	OLLOMOUC	28-Jun-07
MCC / visit-interview	MAIER CZ	Maier Czech R. HR Director	CZECH R.	OLLOMOUC	28-Jun-07
MCC / case study	COPRECI CZ	Copreci Czech R. CEO	CZECH R.	DVORCE	22-Jun-07
MCC / case study	COPRECI CZ	Copreci Eastern Europe Manager	CZECH R.	DVORCE	22-Jun-07
MCC / visit-interview	CZEIKA	Eika Czech R. CEO	CZECH R.	WROCLAW	28-Jun-07
MCC / visit-interview	CIAKUTXO SLOV	Cikautxo Slovak. R. General Manager	SLOVAK R.	NOVE ZAMKY	26-Jun-07
MCC / visit-interview	CIAKUTXO SLOV	Cikautxo Slovak. R. PM	SLOVAK R.	NOVE ZAMKY	26-Jun-07
MCC / visit-interview	CIAKUTXO SLOV	Cikautxo Slovak. R. technical assistant	SLOVAK R.	NOVE ZAMKY	26-Jun-07
MCC / visit-interview	CIAKUTXO SLOV	Cikautxo Slovak. R. PM	SLOVAK R.	NOVE ZAMKY	26-Jun-07
MCC / visit-interview	CIAKUTXO SLOV	Cikautxo Slovak. R. PM	SLOVAK R.	NOVE ZAMKY	26-Jun-07
MCC / visit-interview	FAGOR EDERLAN SLOVENSKO	Fagor Ederlan Slovak. R. Quality Manager	SLOVAK R.	HRONOM	27-Jun-07
visit - interview	IBERICA Trading & consulting	Iberica CEO	SLOVAK R.	BRATISLAVA	26-Jun-07
visit - interview	EUSKARRI	SPRI Wroclaw CEO	POLAND	WROCLAW	18-Jun-07
visit - interview	AZPITARTE CONSULTING	SPRI Poland CEO	POLAND	WARSAW	29-Jun-07
visit - interview	INGEMAR	Ingemar CEO	POLAND	WROCLAW	27-Jun-07
MCC / case study	COPRECI TURQUIA	Copreci Turkey CEO	TURKEY	ISTAMBUL	30-Jun-07
MCC / visit-interview	FAGOR INDUSTRIAL TURQUIA	Fagor Industrial Turkey CEO	TURKEY	ISTAMBUL	30-Jun-07

## INTERVIEWS AND FACTORY VISITS AT PARENT CO-OPERATIVES

CATEGORY	GLOBAL COOP - COMPANY	COMPANY POST OR RESPONSIBILITIES	COUNTRY	CITY	DATE
MCC / case study	COPRECI	Copreci HR Director	EUSKADI	ARETXABALETA	Feb-06
MCC / case study	IRIZAR	Irizar Group Technology Transfer Coordinator	EUSKADI	ORMAIZTEGI	Feb-06
MCC / case study	EIKA	Eika Group HR Director	EUSKADI	MARKINA	Feb-06
MCC / case study	EROSKI	HR Development Director	EUSKADI	ELORRIO	Mar-06
MCC / visit-interview	CIKAUTXO	Cikautxo HR Director	EUSKADI	BERRIATUA	Dec-06
MCC / visit-interview	MCC	MCC Asia and Pacific Director	EUSKADI	SHANGHAI - MONDRAGON	Dec-06
MCC / visit-interview	MCC	MCC International Director	EUSKADI	ARRASATE	Nov 2005 - Feb 2007
MCC / visit-interview	MCC	MCC HR Director	EUSKADI	ARRASATE	Sep - Feb 2006
MCC / visit-interview	MCC	MCC President (1998-2002)	EUSKADI	DONOSTI	Oct-05
MCC / visit-interview	MCC	MCC President (2007-)	EUSKADI	ARRASATE	Dec 2007 - Feb 2008
MCC / visit-interview	MCC	MCC Vice-President Home appliances	EUSKADI	ARRASATE	Feb-08
MCC / visit-interview	MCC	MCC Vice-President Automotive	EUSKADI	ARRASATE	Feb-08
MCC / visit-interview	MCC	MCC Vice-President Components	EUSKADI	ARRASATE	Feb-08
MCC / visit-interview	MCC	MCC Social Management Director	EUSKADI	ARRASATE	Feb-08
MCC / factory visit	FAGOR INDUSTRIAL		EUSKADI	OÑATI	Oct-05
MCC / factory visit	FAGOR ARRASATE		EUSKADI	ARRASATE	Apr-07
MCC / factory visit	GEYSER GASTECH		EUSKADI	BERGARA	Jul 04 - Apr 07
MCC / factory visit	IDEKO		EUSKADI	SORALUCE	Jul 04 - Apr 07
MCC / factory visit	SORALUCE		EUSKADI	SORALUCE	Jul-05
MCC / factory visit	IRIZAR		EUSKADI	ORMAIZTEGI	Jul 04 - Feb 05
MCC / factory visit	ULMA FORJA		EUSKADI	OÑATI	Jul 04 - Feb 05
MCC / factory visit	ULMA POLIMERO		EUSKADI	OÑATI	Feb-07
MCC / factory visit	ULMA PACKAGING		EUSKADI	OÑATI	Jul-04