

# THE INTERNATIONALISATION OF COOPERATIVES: THE CASE OF THE MONDRAGON COOPERATIVE CORPORATION\*

by

Anjel Mari ERRASTI\*\*

*Institute of Cooperative Law and Social Economy, School of Business  
Science, The University of the Basque Country, San Sebastián, Spain*

Iñaki HERAS

*School of Business Science, The University of the Basque Country*

Baleren BAKAIKOA

*Institute of Cooperative Law and Social Economy, Faculty of  
Law, The University of the Basque Country*

and

Pilar ELGOIBAR

*School of Business Science, The University of the Basque Country*

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**ABSTRACT\*\*\*:** *This paper outlines the internationalisation process of cooperatives in an economic environment determined by economic globalisation. The analysis is focused on the Mondragon Cooperative Corporation (MCC) in the Basque Country which is a point of reference for participatory enterprises all over the world. MCC is currently adapting to changing market conditions and pursuing a strategy of direct investment (joint ventures, greenfield investment and acquisitions) in priority international markets. Thus, the first part of the study is about the current situation: the*

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\*\* Corresponding author: egperama@se.ehu.es

\*\*\* *Résumé en fin d'article; Zusammenfassung am Ende des Artikels; resúmen al fin del artículo.*

*problems and consequences related to the internationalisation process of the MCC. In the second part, we consider an analytical framework for developing measures and strategies which could facilitate international expansion but in a manner which is more in line with cooperative values. The third part focuses on the presentation and discussion, based on this analytical framework, of a number of proposals made within the MCC on international social-economic policy.*

## 1 Introduction

As is well known, globalisation is one of the principal phenomena determining the future of the general business environment of any company. Succinctly, there are four inter-related factors which have given rise to the process of economic globalisation: the increase in international relations, the growth of multinationals, the internationalisation of markets and the introduction and implementation of new technologies, this last factor playing a particularly significant role in the other three (Castells 1996). Apart from these four elements, globalisation clearly involves other aspects of a political, ideological and cultural nature; that is to say, in the process of globalisation, the economic aspect is not necessarily the only or defining one.

Together with all this, this study underlines two processes intricately linked to the globalising phenomenon: the processes of internationalisation of companies and the consolidation of the multinationals. In recent years, the phenomena surrounding the internationalisation of companies have become highly important in the context of current economic globalisation, as demonstrated by trade flows, and by direct foreign investment (UNCTAD 2000). Thus, the process of globalisation is contemporaneously both a consequence and a cause of the increase in external trade, of direct foreign investment and of the proliferation of the multinationals (Dicken 1998).

Cooperatives are not divorced from the phenomenon of globalisation of the markets and competition. Nowadays, many cooperatives are left with no other choice, if they wish to continue being competitive and remain in the market, but to adapt to the exigencies of a global economy. The question is: how can a cooperative operate in a global economy?

Focusing on the international business issues, generally speaking, the producer cooperatives tend to have a smaller international presence and this generally through external implantation which requires a greater commitment of resources in the receptor market (Böök 1992). The international commitment of industrial cooperatives

translates into exports, passive and active, which does not impede it from constituting a weak form of international presence.

The export and technology transference activities by cooperative organisations are not really that different from the problems facing the rest of small and medium-sized companies. On the other hand, the phenomenon of multinationalisation for cooperatives turns out to be more complex. In fact, the international growth of the cooperatives is not coming through international cooperation, but through foreign direct investment (joint ventures, greenfield investment and acquisitions), which clearly diverges from the traditional cooperative approach.

With the aim of going into these questions in more detail, we analyse below a concrete and current case: that of the problems and the challenges of internationalisation faced by the constituent cooperatives of the Mondragón Cooperative Corporation (MCC). More specifically, we first analyse the current situation of the internationalisation of MCC and we demonstrate that the Mondragon experience has been transformed by this process from its historical cooperative principles.<sup>1</sup> In the second part, we consider an analytical framework for developing measures and strategies which could facilitate international expansion but in a manner which is more in line with those cooperative values. In the third part, and based on this analytical framework, we present and discuss some proposals made within the MCC about international social-economic policy.

## **2 Internationalisation of the Mondragon Cooperative Corporation**

### **2.1 An overview**

The Mondragon cooperatives have attracted the interest of many researchers, both in the field of self-management as well as in business economics in general. The experience launched in 1943 by Arizmendiarieta with the foundation of a democratically run Polytechnic School, has become a cooperative corporation (the MCC) of 147 cooperatives, structured into four groups — industrial, financial,

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1 The field method employed for this article is based on a form of participant observation which utilised semi-structured interviews with more than 60 members of the MCC together with analysis of historical aggregate data, internal reports and published documents. The complete report can be read in the doctoral thesis recently presented by A. M. Errasti (2002). We would like to take this opportunity to thank the MCC for their help in drawing up the report.

distribution and research & training — today employing almost 60,000 persons with a 2001 turnover of over 8,000 million euros.

The Mondragon cooperatives reflect the concern of combining the basic objectives of a business development in capitalist markets with the use of democratic methods in its organisation, job creation, promotion of its workers in human and professional terms and commitment to the development of its social environment. During the second half of the XX century, Mondragon has been the model for successful cooperative businesses to follow, overcoming the restraints imposed historically on cooperativism regarding their financing, their sizing and even their productive activity; though real tensions have not disappeared over the extent to which the Mondragon cooperatives can achieve their targets in terms of social values.<sup>2</sup>

Nevertheless, the development of this experience over the last decade, particularly on an international level, has thrown up more questions regarding the viability of the Mondragon cooperative model and, consequently, of the cooperative model in general. Since 1994,<sup>3</sup> given the situation of growing internationalisation and the globalisation of the economy, the MCC cooperatives have been constructing a wide network of companies throughout the world, mainly in the so-called emerging nations. The strategy has involved acquisition of businesses and the constitution of private capital affiliated companies, given that, nowadays, following the cooperativist formula, due to obstacles of an economic, jurisdictional and cultural nature, it is not easily possible to organise production abroad nor to formulate strategic agreements aimed at creating joint-ventures firms. This strategy has produced contradictions between the basic objectives of a business organisation competing in international markets and the historical core principles and values of the Mondragon cooperatives.

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2 The tension between business success and social values in Mondragon have been studied before, i.e. Whyte and Whyte (1991), Grennwood and Gonzalez (1992), Kasmir (1996) and Cheney (1999), but they have not taken into account the transformation of the cooperative movement due to the internationalization process.

3 According to the then President of the MCC Corporation, Cancelo, the acceleration experienced in world trade and the on-going processes of globalisation motivated the drawing up of a specific plan in 1994 for the internationalisation of the co-operative companies within the Corporation. This Corporate Strategic Plan for Internationalisation (PECI) was aimed at «boosting the presence abroad of the co-operatives, co-ordinating the initiatives of sectorial groups and designing platforms of co-operative support and aid in order to guarantee optimum success» (Cancelo 1996).

Nowadays, the main nucleus of businesses within the industrial group is made up of a number of *multinational cooperative holdings*, as shown in the table below. They are only 18 of the 119 industrial cooperatives of the MCC, but they represent 65% of the total turnover of the group.

According to the projections of the second corporate strategic plan (2000–2004), this internationalisation process has but just commenced given that, by the end of 2004, the MCC will have 60 production centres throughout the world. External production will account for some 14% of the total (translating into 660 million euros), and the

Cooperatives	Activity	Division	Affiliated firms
Batz	Die-stamped, injection-moulded and pressed products	Automotive	Brazil
Cikautxo	Rubber products	Automotive	Czech Rep., Brazil
Coinma	Wooden office furniture	Household	India
Copreci	Household electrical components	Components	Mexico, Czech Rep., Italy, USA, Holland*, Brasil
Danobat	Machine tools	Machine tools	Romania
Dikar	Hobby, recreational & sports goods	Industrial plant	China, Brazil
EIKA	Electric hot plates & resistances (ovens)	Components	Czech Rep.
Fagor Ederlan	Iron & aluminium machined parts	Automotive	Brazil
Fagor Electro-domesticos	Household electrical goods, kitchens, air-conditioning	Household	Argentina, Egypt*, China, Poland, Morocco
Fagor Electrónica	Semiconductors	Components	Thailand
Fagor Industrial	Hotel/catering & industrial laundry goods	Household	Colombia*
Fagor Sistemas	Assembly systems and maintenance	Engineering & Capital Goods	France, Germany
Irizar	Bodywork for Buses	Industrial plant	China, Morocco, Brazil, Mexico, India
LKS Ingenieria	Engineering & consultancy	Engineering & Capital Goods	Uruguay
Maier	Plastic products	Automotive	United Kingdom
Mondragón Sistemas	IT services	Engineering & Capital Goods	France
Orkli	Safety regulation & control of household electric goods	Components	Czech Rep., China
Orona	Lift manufacture, installation & maintenance	Construction	Portugal, United Kingdom*
MCC Promoauto	Components for the automotive sector	Automotive	Argentina, Brazil

\*In liquidation

**Figure 1 – MCC multinational cooperative holdings**  
**Source: Adapted from MCC.**

Foreign / MCC	1995	1999	2004 (forecast)
<i>International Sales /Total Sales</i>	35%	47%	57.4%
<i>International Purchases /Total Purchases</i>	12%	27.6%	35.4%
<i>Foreign Workers /Total Workers</i>	0.5%	8.6%	23.2%
<i>Foreign Subsidiaries</i>	5	19	60

**Figure 2 – Evolution of the internationalisation process of the MCC (industrial group)**

Source: Adapted from MCC and from the Corporate Strategic Plan (2000–2004).

industrial workforce of the MCC abroad will be 9,000 persons, of a total of 70,000 employees, (Catania, 2002).

## 2.2 The current internationalisation model of the MCC industrial cooperative

To assess the model and the results of external growth of the MCC from a cooperativist perspective, one can start, on the one hand, with the analysis of the relations between the cooperatives and the affiliated companies and, on the other, with the analysis of the relations between capital and work in those affiliated companies.

Regarding relations between parent cooperative and affiliated companies, usually joint ventures with local partners,<sup>4</sup> –such as the locating of the decision-making centre and the degree of centralisation of that decision-making, or the make-up and origin of the management, the transference of technology, transfer pricing and tax policy –, a differentiated policy has not been developed. For example, the chief executives of the affiliated companies are expatriates appointed by the parent cooperative, the decision-taking process being strongly controlled and the R&D highly centralised. This is what Chakravarthy and Pelmutter (1985) refer to as *ethnocentric multinationals*, whose attitude towards foreign affiliates is rather like that of a mother country towards its colonies (Dunning 1993).

If we refer to the sphere of *Capital-Labour* relations of the MCC foreign affiliated companies, it can be seen that the working condi-

4 When MCC cooperatives decide to make foreign investments, they look for the partial acquisition of local businesses, trying to keep the majority stake of ownership. Only 40% of the affiliated companies are greenfield investment (*ex novo*).

tions and labour relations of these affiliated companies depend not so much on the nature of the parent company, in this case of the cooperatives, but on the conditions extant in the country where each offshoot business is located. There are two clear references: on the one hand, the legal frameworks of each country and, on the other, the conduct of other companies within the same sector in those countries, particularly of the multinationals.

The overall outcome of employee participation in foreign plants (management participation, profit-sharing and ownership participation, both at the affiliated company level and at that of the parent corporation and cooperative itself) leaves a lot to be desired from the self-management point of view. Nevertheless, some interesting experiences should be pointed out and which offer important data on how institutional participation by employees of the affiliated companies can take place in social-economic system of Mondragon. In general terms, they are modest advances in ways of participation of employees on the Board of Management of the affiliated company, of profit-sharing systems and even of integration of a number of the local directors of the affiliated companies as 'collaboration' part-members of the parent cooperative. Although, other, contrary experiences could also be mentioned.

The pattern of foreign investment by Mondragon Cooperatives also shows that neither the objectives of external expansion nor the target countries differ significantly from those by other, more conventional, multinationals with similar characteristics. Most of the Mondragon multinationals are market-seeking, in the early days of the internationalisation process. Some of them are obliged to follow their big manufacturing clients abroad as suppliers. Another motive for foreign production is that of seeking low production costs; primarily through cheap and well-motivated unskilled or semi-skilled labour. If the MCC cooperatives are to compete against large industrial multinationals, they must develop their own multinational production and distribution networks. For these reasons, most of the international investment is directed to the new emerging markets, such as China, Brazil, Mexico, Poland or The Czech Republic, where cooperative subsidiaries produce similar products to those supplied by the parent companies.<sup>5</sup>

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5 For example, there are nine subsidiaries of the MCC in China, with over 1,500 workers and a turnover of \$50 million. Nowadays, many of the MCC firms in both the machine tool and the automotive suppliers divisions are focussing on China.

In any case, it should be pointed out that external expansion has not been detrimental to cooperative employment nor to cooperative autonomy. In other words, the principles guiding the internationalisation strategy are to preserve MCC cooperatives jobs and sustain the profitability of MCC firms (Urdangarin 1999). It has not been a policy of *delocating*, in the narrow sense of the word. Internationalisation has also taken place without recourse to the sale of the company or its merger with other conventional, more powerful business groups.

The main focus of the Corporation and the cooperatives has been in the industrial and commercial development of the plants abroad, while design of social policy has been put, as it were, on the back burner, following the pragmatic line which has spread throughout the cooperative world (Böök 1992), and which can be summed up in the following comment: « firstly we place our companies and businesses on the international market and then we try to find formulae which are nearest to our principles and values ». In effect, the social policy of corporate internationalisation has been marked by an absence of a concrete policy or, which is the same, by carrying out a policy in common with the majority of multinationals.

In this sense, leaving behind the cooperativist lack of definition of social-economic policy during the international expansion of the nineties, the challenge for the MCC cooperatives in the first decade of the twenty-first century is to generate formulae which facilitate both internal and external development in tune with the principles and values of the Mondragon cooperative experience. It is a question of great interest which we will address forthwith; but first we will pause to enlarge the focus of our analysis in order to get a broader perspective of the changes that have taken place, due to activities undertaken at an international level, in this quite unique cooperative movement.

### 2.3 New organisational paradigm of the MCC

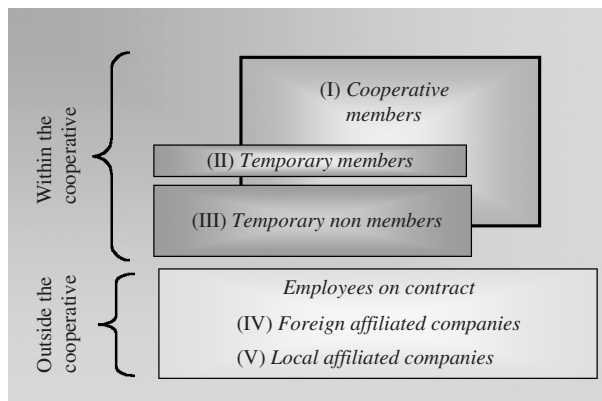
Internationalisation has proven to be a successful strategy for the MCC multinational cooperatives. Their competitive position in relation to European and world business companies within the same sector is a leading one, being considerably better than a decade or two ago. MCC internationalised companies have significantly improved in



a number of aspects such as growth and profitability between 1995 and 2000 (Errasti 2002).<sup>6</sup>

The management advice supplied by the MCC headquarters and, by the divisional and the sectorial subgroups together with the financial support from corporate resources, has been very important for international business development. We can state, following on from the claim of Moye (1995), that in the case of the internationalisation strategy, the Mondragon cooperatives have established how to overcome obstacles to investment, innovation and growth, by means of organisation of coordination systems in a variety of business management areas which has made efficient transaction costs possible, thus reducing the risk of uncertainty during periods of change.

However, the formulae used in developing MCC in the past decade, at an international level above all, have brought with it a new organisational paradigm of the Mondragon cooperative experience. Today, the Mondragón Corporación Cooperativa is made up of a number of different business models wherein various employee groups having different contractual relationships take part, as outlined in figure 3: the cooperative nucleus is made up of *Cooperative members* (I) and *temporary members* (II), a new member type allowed



**Figure 3 – New MCC paradigm: dual system**

6 As a result of these changes, the MCC has become the prime industrial group in the Basque Country and the sixth within the Spanish State. According to the turnover figures, MCC is, outside the financial sector, the sixth largest business in the state of Spain, behind Repsol, Telefónica, Endesa, El Corte Inglés and Cepsa. It occupies position 185 in the European ranking (*Actualidad Económica*, 30-10-2000 and 17-9-2000).

by Basque cooperative law. The cooperative periphery is formed by different non-member workers. The third group (III) is made of non-member workers that MCC is using in its traditional cooperatives (more than 20% of the personnel within the cooperatives, as a form of a more dispensable workforce to answer the increased volatility of the global market).<sup>7</sup> The next group is formed by strictly non-member workforces from the businesses developed abroad (IV) and within Spain (V).<sup>8</sup>

At present, it is estimated that, for every ten employees who work directly in the MCC Corporation, less than four workers are cooperative members. According to forecasts, this tendency is on the increase (Cancelo, 2000).

The Mondragon experience has overtaken the cooperative framework and has created a new organisational paradigm based on a dual model wherein, apart from the cooperatives themselves, there are conventional companies dependent on the former. Some call this new paradigm *neo-cooperativism*, because the new strategic perspective attempts to marry what is possible with cooperativist identity (Larrañaga 1996).<sup>9</sup> In our view, this transformation process which the Mondragon experience is undergoing is more one of mutation than of a simple adaptation. It thus translates as a qualitative leap involving changes in value systems and cultural rupture and with radical transformations taking place.

Thus, this evolution would appear to re-affirm the predictions of the critics of the cooperative system. As pointed out in the historic *thesis of cooperative degeneration*, in a capitalist economy long-term economic success is not compatible with the maintenance of cooperative

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7 Article 11 of Legislation 1/2000, of 29 June, modifying the law on cooperatives in Euskadi, states the following: 'The number of hours per year worked by employees on an employed person's work contract cannot exceed 25 per cent of the total number of hours per year worked by cooperative members'. Nevertheless, the Authorities may authorise a temporary waiving of this limitation, which has indeed been a common practice in the MCC between 1995 and 2001. Nowadays, however, with the current recession, it is very likely that the number of temporary workers has dropped considerably. For more details about temporary members and temporary non-members see Bakaikoa (2001).

8 We can consider employees on contract in subcontracted companies as another type of employee group and which make up the periphery of the cooperatives.

9 Others call it *coopitalism* because they combine cooperative societies with private capital companies (Defourny 1999).

and democratic principles (Webb 1921).<sup>10</sup> So, in these times of economic globalisation and of necessary international expansion, that little if any *margin of manoeuvre* which cooperative enterprises appeared to have had in the past, are narrowing even more, and these cooperatives are increasingly similar in their policies and even in their nature to conventional private capital business companies.

We are then, effectively in a period of crisis for the Mondragon cooperative movement (by the term crisis meaning change of model). The old model of enterprise and cooperation is no longer a valid one, and no new one has been thrown up. Thus, today, the Mondragon cooperative model, as with a large number of cooperatives throughout the world, is at a crossroads, on the one hand having to face the great challenges of a globalised economy and, on the other, continuing to be faithful to the founding values of the experience.<sup>11</sup>

In any case, whether the traditional cooperative model is overcome or not, the challenges facing and the ethical commitments of cooperativism are still with us. We thus believe it essential to consider here and now the very nature of the Mondragon experience and the new challenges which it presents, particularly at an international level, taking into account harmonious development, not only in the fields of cooperativism, but also in those of Social Economy.

### **3 Analytical framework for a cooperative social-economic policy in international expansion**

In this context, we present below an analytical framework which can be of use in this debate on cooperative social-economic policies regarding international expansion. In brief, we believe that the key criteria of the international expansion have to be coherent with the principles and values of cooperativism which implies, on the one hand, the need to explore to the full the various existing cooperative possibilities and, hand in hand with this, the need to make progress in industrial democracy in the affiliated companies, questions which we analyse forthwith.

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10 An historical overview of this debate can be found in Cornforth et al. (1988).

11 We can find other similar cases in Côté (2001) and also Barea et al. (1999).

### 3.1 Exploring the traditional cooperative framework to the full

The commitment to the cooperative ideal demands that all the possibilities for adapting to international competition as presented by existing structures be explored to the full, not only through specialisation in their own markets but also via initiatives which facilitate the internationalisation, including the multinationalisation, of the cooperatives.

Arizmendiarieta, the founder of the Mondragon cooperative movement, in an interview conceded to the *TU Lankide magazine* in 1976, pointed out that, in a way, an integrated cooperativism could be thought of, with the necessary provisos, as equivalent to the multinational (Larrañaga 1998).<sup>12</sup> According to Bööck (1992), a multinational cooperative organisation can only come about as a result of democratic agreement of all the cooperative organisations in the various countries involved.<sup>13</sup>

However, problems thrown up by the creation of a multinational cooperative as opposed to the creation of private capital multinationals are much more complex. Private capital companies carry out their international activities through the markets and capital, wherein the economically strongest elements dictate the conditions. The private capital companies can act with great ease: absorptions, fusions, agreements to interchange capacities as well as influences on the markets are carried out efficiently. The capital subsidiaries can be carried out with fluidity because there is no need to transport ideas or persons or concepts of democracy; only the flow of capital is necessary (Ormaetxea 1996).

Cooperative multinationalisation is theoretically carried out by means of democratic negotiations between cooperatives in different countries and from which arise stable co-operation. However, this alternative presents problems that are difficult to resolve: i) the

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12 According to Larrañaga (1998), in the above-cited interview, Arizmendiarieta stated: 'the multinationals are taking over in the world. But why? Everybody talks about tentacles and so on and they have a bad image. But, why don't we question things more deeply? Is it really true that they are not necessary?...One way or another we have to see that the equivalent to the multinational is, with the necessary provisos, integrated co-operativism'.

13 The constitution of a co-operative organisation formed by members carrying out their activities in different countries would be another possibility but the current legislation of the various governments on co-operatives does not allow it.

cooperative sector is limited; ii) there exist divergent concepts of cooperativism in different countries; iii) intrinsic cooperative problems.

With all this, and as pointed out by Lanki, the Institute of Cooperative Studies at the University of Mondragon, 'To analyse and take to its limits all existing possibilities in this field is the inescapable obligation of cooperativists today. What is needed here is an assessment of whether we feel committed to the expansion of the cooperative movement on an international level or whether we are part of the generalised belief that the only future belongs exclusively to the capitalist economy' (Proyecto testimonio 1999). Thus, we highlight here two lines of possible action:<sup>14</sup>

- a The transformation of foreign affiliated companies into cooperative societies (wherever the most ideal conditions allow). Simultaneously, efforts have to be made in the development of methods of cooperation between interdependent cooperatives in different countries. In this sense, an important step could be the *legislative initiatives*, as a future legal corpus for the European Cooperative Society, that could emanate from the European Union to achieve a common legal framework for companies involved in advancing Social Economy (for example, in order for the cooperatives to be able to install as a cooperative regime in the different member states, or for cooperatives in different member-states to be able to carry through processes of integration).
- b The possibility of finding help and collaboration from other cooperatives when considering installing in another country, in such a way that international expansion and external production could be carried out in the fields of inter-cooperation, both through technology transference and through the creation of *joint ventures* or businesses, preferably cooperative ones, which have shared ownership.

A clear policy in favour of these plans of action, with the necessary financial and human resources, is a priority from the point of view of cooperative commitment and responsibility. Possibly and initially of an experimental nature, they would allow the exploration

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14 Another field which opens great possibilities for commitment to cooperativism is that of cooperation in development. But we will not analyse it here as we have limited ourselves to the ordinary activities of companies.

of new ways of confronting the challenge of internationalisation, and would form a priceless source of information on genuinely cooperative possibilities in a globalised economy.

### 3.2 Advancing the industrial democracy of the affiliated companies

There is no doubt that the global economy foments private capital companies in the international business arena. Thus, we can see that certain companies, within the field of the Social Economy, especially the large cooperatives, are losing their characteristic features to the capitalist model. With all that the global economy entails, new fields and options are also generated for the development of cooperation and for the democratic economic model.<sup>15</sup> In our opinion, as we have pointed out above, the limits of the models or the legislative formulae do not satisfy the restlessness and the challenges thrown up by cooperative perspectives. In our view, the idea of cooperation is above that of cooperativism (in the sense of the legally constituted cooperative society). Even leaving aside the nature of cooperativism, the options for developing relations of cooperation amongst cooperative societies and their private capital affiliated companies are still open and ever more pressing. In this sense, taking into account that big business, the multinationals above all, are not going to go away but increase in presence and power, the task that can be effected by the internationalised cooperatives in the democratisation of big business, within the framework of international social-economic relations is highly important.

Below we present a summary of the key elements in this development of social-economic policy directed at process of internationalisation of cooperative societies:

#### *Principles*

As we have repeatedly stressed in this paper, the topic of cooperative international expansion contradicts two principles about how centres of power and decision-making arise in cooperatives and in multinationals. These principles determine, following Gutemberg (1986), the degree of autonomy with respect to external powers and the internal exercise of decision-making, as well as the manner of measuring and controlling economic-business decisions. On the one

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15 With respect to this, see the interesting book by Defourny et al. (1999).

hand we have the *cooperative principle of localised cooperative ownership and self-management*, in which cooperative enterprises are autonomous and democratic organisations, run by means of the participation of those who make up the cooperative (based on the 'one person, one vote' principle). As is well known, the self-management in the administration of the company is one of the central tenets of the cooperative system. On the other hand, there is the *principle of exclusive and single decision-making by the multinationals* (as exercised by the directors of the affiliated companies who are nominated by the parent cooperative societies) in line with their control of capital. With these two principles it can be clearly seen the incompatibility of the cooperative system with the conventional multinational enterprise system.

One possible way out of this contradiction might be found in the *principle of inter-cooperation*, permitting a balanced situation based on inter-dependence and achieving an intermediate position between complete centralisation and autonomous management of the affiliated companies.

It is possible to find a reference for this idea in recent studies about multinational organisations, where a new organisational form characterised as 'networked multinationals' or 'heterarchical multinationals' is highlighted. Goshal and Bartlett (1990) pointed out a new model of multinational company different from the multinational with a dominant parent company location, substituting it with one having heteroarchival relationships based on criteria of flexibility and co-operation. Subsequent to this study, many authors are contributing to the idea.<sup>16</sup>

### *Objectives*

So, the objective of a social-economic policy should consist of putting forward a plan for external development coherent with the historic principles and values of cooperativism which can be translated into, primarily, a growing commitment to the social-economic environment and, secondly, in a situation of dependant relations between the parent and the affiliated companies, into the boosting of relations of cooperation and, thirdly, into the recognition by the subsidiaries of workers' rights to participate in decision making concerning the activities in which they are personally and directly

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16 See for example the work of Andersson and Forsgren (2000).

involved, through the development of social-working conditions, in a more cooperative way, for the workforce in the affiliated companies.

### *Lines of action*

Concretely, and in a very schematic way, the lines of action of an international social-economic policy might consider the following variables, (over and above those cooperative ways already mentioned):

a *Consideration of social aspects in the planning of external development*, in analysing the alternatives to transference of licences, subcontracting, exports or external production. For example, when considering carrying out production investment plans, the following points would have to be taken into account:

- When choosing countries and regions for investment/development, prioritising those places which favour advancing in industrial democracy.
- When investing jointly, analysing the awareness/sensitivity of members to social themes.
- Undoubtedly, as has been mentioned before, extending to the limit all possibilities of working with other organisations involved in Social Economy through inter-cooperation.

b *Development and application of management and assessment techniques* of social-economic policy in external expansion which would allow advances to be made in terms of democracy and cooperation, in line with the proposed aims. *Transparency of information*, both relative to the state of the affiliated companies, as to the cooperatives, would be one of the pillars of external growth. Here, the following tools, which could be complementary, should be mentioned:

- *Economic and social assessments* of the relations between the cooperatives and their affiliated companies and of the progress made from the cooperative perspective.
- The creation of *observatory* bodies for international policies of the cooperatives, mainly targeting the progress of and improvements in the participation and working conditions of employees in the affiliated companies.
- The introduction and application of international and local *codes of conduct*, a question which we will refer to in the following section.



- c *Subsidiary business consolidation and self-sustaining development.* In the context of the networked multinational model mentioned before, it is necessary to improve functional capability and decentralisation of managerial authority and responsibility of the affiliated companies, in contrast with the traditional model of multinational organisation – hierarchical with strong centralised coordination. For example, by the decentralisation of some functions (e.g. R&D, Marketing), strengthening the linkages with host economies and facilitating diffusion of competence and knowledge to the affiliated companies in order to guarantee their self-sustaining development.
- d *Results distribution policies* are indicators of the commitment of the company to their employees and to the environment it finds itself. Policies which would follow the usual cooperative bias of obligatory reserve funds and education and promotion funds could be set up for affiliated companies.
- e *Development of participation models*, both in management (work organisation), profits and property of the affiliated companies, as of the cooperative parent companies. Starting from the improvement of the social and working conditions of employees (contracts, wages & salaries, length of working day, promotion opportunities, training...), an implementation of procedures which would allow progress in participation and democratic process in the affiliated companies and through the system as a whole. Moreover, consideration would have to be made of at least the following aspects:
- The origin of the management/administration of the external plants, the procedure of their election and training.
  - The role of the trades unions in representing the interests of workers in the affiliated companies and channelling their participation in co-managed models. Even the role of these in the very parent cooperatives would have to be analysed.
  - The works joint committee of the group or similar entity representing the workforce of the cooperatives and their affiliated companies.
  - The participation of the members of the affiliated companies, or their representatives, as associated members of the parent cooperatives.

From the perspective of industrial democracy, the target aim is not the creation of a new model for workers in the affiliated

companies, but the development of a one involving the overall participation of those employees. Thus, the importance of creating the conditions and mechanisms which facilitate the participation of workers at all levels of the affiliated company, the cooperative and even the corporation. So the key element is, to our way of thinking, to prioritise people over capital. That is precisely the criterion which distinguishes the cooperative societies from the rest of the companies, and which will condition the level of industrial democracy in the new model.<sup>17</sup>

f Involvement in the *general, professional and cooperative education* of employees and directors of the affiliated companies (as well as of the cooperative members), in line with the cooperative principle of education, in order to continue to progress in the economic and social development of the companies and their workers.

Now, these initiatives favouring a deeper social and cooperative responsibility in external expansion have a dynamic character which depends on the relations of at least four groups of variables: on the characteristics of the cooperatives (parent), on those of the affiliated company, on the environment in which the affiliated companies are located and on the sector activity.

In this epigraph we have presented a summary of some of the variables, principles, objectives and lines of action which condition the democratic running of organisations and persons in international businesses. It must be understood as a preliminary attempt to bring together the ethical principles which underpin the cooperative movement and the exigencies of the international-

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17 We believe that in order to guarantee the rights of worker participation in both the national and foreign-based affiliated companies, it is fundamental to continue with the institutional tradition which has been the hallmark of the Mondragon social-economic movement. As José María Ormaetxea recalled in the early years of the Mondragon experience (Whyte and Whyte 1991): '[Don Jose Maria] urged us every day to make a greater commitment to the labour movement and to the future economic and social transformation of society. Misled somewhat by capitalistic thinking in our first phase, we thought the solution could be found in social reforms of a paternalistic type within capitalist society. But Don José María always insisted that the solution was not to be found in casual reforms but rather in structural reforms; that is to say it was necessary to change sovereignty of capital to sovereignty of labour'.

- Applying co-operative principles and values in an overall manner within the reality of the MCC, that is, taking into account the situation of the foreign affiliated companies.
- Being particularly sensitive to promoting models which offer foreign employees opportunities for personal development, in training and for personal and collective progress.
- Contributing to the achievement, for both company and employees, of a certain capacity of autonomy and development.
- Adapting the model of management to the cultural reality, to styles of functioning and activity. . . , always trying to provide it with those differentiated signs of identity.
- Behaving with transparency within the enterprise, respecting the norms and with operational mores based on equality and which are regulated, not arbitrary.
- Being active, whenever possible and in accord with the scale and impact of our presence, in promoting social advances, particularly education. And incorporating personnel of our companies in this type of activity.
- Being present in the educational institutions, contributing to their initiatives.
- Promoting business enterprise, particularly of a co-operative nature.

**Figure 4 – General outlines for external expansion**

isation of businesses, in order to achieve an end-result of an harmonious development of the cooperatives and their affiliated companies.

#### **4 The challenge of international social-economic policy in the MCC: discussion of proposals**

Some leading players within the ambit of the MCC have been trying to generate reflection and debate on the social-economic policies – internationally – of cooperatives. The MCC faces the challenge of socially defining their policy of international expansion, in line with their principles and values. In the last two years a number of proposals, although tentative and incomplete, have been put forward from various ambits within the MCC Corporation. As an exercise of synthesis in this summarised article, we have brought together four proposals: the first option comes from the social bodies, the second from the headquarters of the Corporation, the third refers to the innovative experience of the Eroski Group in the participating cooperative societies throughout the Spanish State and the fourth explores some external expansion strategies of a number of MCC cooperatives based on the traditional cooperative way.

#### 4.1 The proposal of the Social Councils: the Ethical Trading Initiative

This first proposal comes from the Social Council of Fagor.<sup>18</sup> In response to the question on what can be done given the lack of definition in the exterior development of the co-operatives, the Council have called upon the Corporation representatives to explore the possibilities suggested by the Ethical Trading Initiative (Larrañaga and Ugalde 2000).

This Ethical Trading Initiative was born in England in 1996 and has since then resulted in agreements between various bodies involved in identifying and designing suitable codes of conduct of work practices in multinational companies.<sup>19</sup>

According to the proposal from the Social Council members at Fagor, the idea is ‘... that MCC contact the ETI for informal talks on our cooperative principles, our commitment to apply these to our activities in our external companies and to request their collaboration in the implementation thereof, finding the formula whereby society as a whole and workers actively participate in all that which distinguishes us from traditional capitalist companies. To participate with local social bodies, who are aware of the realities in their country and the labour situation thereof, and who are independent of the enterprise and have the backing of that society at large in the country in which we are active or about to be active. All this to the end of

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18 In principle, this is a body of an advisory nature whose directors are elected by the membership, grouped in workplaces or areas of activity, their functions being principally those of personnel and social policy of the co-operative, with the decision-making powers delegated by the Governing Council. In practice, this entity created within the Mondragon experience is ambiguous and ambivalent with members treated as workers rather than as co-owners (Whyte and Whyte, 1991).

19 Ethical Trading Initiative (ETI). Amongst the participating organisations are: a) Businesses (Premier Brands, Sainsbury’s, Littlewoods, Bodyshop, Incon data, Price Waterhouse...); b) NGOs (Oxfam, Christian Aid, CAFDD, World Development Movement (WDM)...and c) Trades Unions (TUC-UK, ICFTU, ITS, IUF...). In principle the campaigns put pressure on distribution groups responsible to a great extent for the working conditions in their concomitant production lines; develop codes of conduct based on the norms of the ILO and implement and control the compliance of these codes through independent monitors. Today, they strive to identify and encourage good working practices in the implementation of codes of practice at work, including the control and the independent verification of the compliance of the codes. More information on the ETI web page: [www.ethicaltrade.org](http://www.ethicaltrade.org).

enriching us with knowledge of the local community workforce and to give credibility to the project amongst them' (Larrañaga and Ugalde 2000).

Now, in our view, it is clear that activities by the Ethical Trading Initiative only answer part of the problem of the social definition of the international policy of the MCC; but the proposal of the Social Councils has the merit of taking on the internationalisation debate and of introducing the question of *codes of conduct* into the cooperative sphere. We believe that the codes of conduct can act as useful tools for cooperative companies with the aim of designing and developing their own social policy more in accord with the principles and values of cooperation. The initiatives and the methodologies recently developed for their application (as placing great importance on the need for participation by those affected by the codes in the whole process of design, implementation and on-going assessment), beyond their mere instrumentalisation they might have for capitalist companies, present an appropriate framework to set out more responsible and more cooperative forms of conduct. But the mentioned codes only lay down the minimum for the development of an international social-economic policy for the cooperatives, given that they are but preliminary steps for the application and development of cooperative principles.

#### 4.2 General outline for external development

Within the framework of the proposals on the social aspect of the external development dynamic of the Corporation, we have to look at those set out by Corporation's Department of Internationalisation. In the MCC Corporation magazine (*TU Lankide*, February 2000), a number of *general lines of guidance* were published as part of a document called *Mode of external expansion for the Mondragón Corporación Cooperativa*, which was designed as a Draft Document for social policy in foreign plants. As outlined in the quoted article, the motives are clear: '...just to be coherent with our principles and values we have the obligation to strive to support the well-being and improvement of 'workers in foreign parts' and of the societies in which they find themselves. In other words, we should be doing everything possible to avoid becoming just another multinational with their principle aim of optimising profits for their shareholders. There are other realities which cooperativists might also concern themselves with. Arizmendiarieta made it quite clear from the start: 'the social has to justify itself by the economic no less than the economic by the social'.

These guidelines are a series of considerations about the way in which the MCC ought to make its commitment to the social-economic development of 'foreign workers' and of the environment where it has or is going to have production plants. This does not constitute a code of conduct as such (although it might give rise to such), nor does it have the status of Corporation policy, but it does have the objective of placing on the table a number of key social elements regarding internationalisation for consideration, debate and the taking on board by members of the cooperatives involved in the processes of internationalisation.

#### 4.3 Formula for participation in management, profits and capital: the GESPA model

From within the Corporation, formulae applicable to the limited capital companies dependant on the cooperative are being sought in order to develop models with a preference to increasing the participation of workers in their management, in their profits and in their capital, as well as promoting the commitment of foreign plants to their environment.

In the search for this formula, the experience developed by the Eroski Group from 1998, wherein part of the cooperative participatory model was transferred to the limited companies which the Group's hypermarkets ran outside its traditional territory (the Basque Country). The Consum and Eroski cooperatives manage a wide network of hypermarkets throughout the Spanish state via Erosmer Ibérica S.A., the capital of which is 95.5% owned by these cooperatives and 4.5% by GESPA (Gestora de Participaciones, Sociedad Civil Particular).<sup>20</sup> GESPA, for its part, is made up of the same cooperatives Consum and Eroski and the hypermarket employees controlled by Erosmer Ibérica and who become members on the payment of 3,000 euros and thus benefit by ownership participation and profit sharing.

This experience initiated by the Eroski group has provided an innovative model of participation in business, which takes on board the terminology and concepts of cooperativism (at its Governing Council, General Assembly and Social Councils), although its characteristics and functions do not bear any relation to the cooperative bodies of the same name. We thus believe that the model is, despite all its limitations, an interesting one for advancing the participation of

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20 Employee Participation Management Services, GESPA, a private company.

workers in limited companies, always assuming that this is accompanied by other measures. This model as an end-model, however, cannot really be classed as a cooperativist one, given that the participation by the workers is conditioned and restricted to a few concrete spheres and, in practice, the principle of the exclusive decision-making process by the parent company is maintained.

#### 4.4 External expansion of MCC cooperatives within the traditional cooperative framework

In this section we will discuss a number of internationalisation experiences of MCC cooperatives within the traditional cooperative way: extending membership to new hires from outside the region; converting acquired companies into cooperatives; and international inter-cooperation.

##### 4.4.1 *External expansion creating cooperative employment*

Worthy of special mention is the case of the Caja Laboral (CL). This banking group was launched in 1959 to mobilise local savings for cooperative investment, and played a central role in the Mondragón cooperatives development and coordination. Since 1991 MCC has taken over many of the promotion and coordination functions of CL, and both the power of CL in the Mondragón cooperatives and its responsibilities have been reduced. CL nowadays follows the road of the traditional financial entities and is classified as amongst the top 150 most solvent in the world.

In the context of national and regional growth, in 2002, the number of branches was 322, 241 corresponding to the traditional network of the Basque region and 81 to the expansion or external network. The 2001–04 Strategic Plan is looking at the opening of new branches in the expansion network to bring this up to 110 branches out of a total of 357. In the expansion strategy, CL extends the same terms of employment and membership to new hires from outside the region as they do to people in the Basque region. This maintains integrity with the cooperative model although taking the risk of dilution of ownership and control by traditional members. Nevertheless, the general assembly of CL is formed fifty–fifty from worker members of the CL and from representatives of the cooperatives while the management board is formed by eight representatives of the cooperatives and four from the worker members. This guarantees control by the cooperatives, independently of changes in the composition of the workforce. This is not the case of the industrial cooperatives where

the management board is entirely formed by worker members. Moreover, another difference is that the expansion of Caja Laboral is gradual with the incorporation of highly skilled employees and in a sector where employee involvement is very important.

#### 4.4.2 *External expansion by converting acquired companies into cooperatives*

To date there does not exist a foreign affiliated company which has transformed into a cooperative. There have been some attempts with an affiliate located in the French part of the Basque Country, but it did not work out.

The case of the local affiliated companies is not very different. In recent years the Mondragon Cooperatives have acquired many affiliated companies, some of them with capitalist partners, in the Basque region; but it should be pointed out that only a few have been transformed into cooperatives. One of them is Fabrelec, a household appliance company situated in Bizkaia purchased by Fagor Electrodomesticos in 1989. Almost all of the nine hundred workers of the firm decided to join the cooperative as members, with the agreement of the members of the MCC cooperative. There are other transformations in process like Victorio Luzuariaga in Usurbil; but they are exceptional. Today the transformation of the local affiliated subsidiaries into cooperatives is not on the agenda. Even the new MCC-created companies are not cooperatives, in fact they are affiliates.

If it is the case that the Mondragon cooperatives have not had the objective of transforming affiliated subsidiaries into cooperative societies in geographically, politically and culturally nearby areas, where they enjoy a very favourable legal framework, than it is that much more difficult with companies from other countries. As a cooperative manager says, 'It is rather utopian'.

#### 4.4.3 *Inter-cooperation*

When considering installing in another country, the possibility of collaboration with cooperatives of this country, in such a way that international expansion and external production could be carried out in the fields of inter-cooperation, it is not practised by the MCC cooperatives.

Today a way of putting into practice inter-cooperation in the international economic arena is being created in North-South relations. In this respect, two experiences that have been launched in recent years are worthy of mention: the Prodeso cooperative and the Mundukide Fundazioa.



The *Prodeso* cooperative is an enterprise involved in transfer of knowledge, particularly to countries of the third world (it could be seen as a company working in the business world of cooperation). Ideas for subsequent activities are: developing education and skills training systems and educational material, creating spaces for newly-created and renovated business, general consulting and advice services, etc.

*Mundukide fundazioa*, on the other hand, is an NGO created within the cooperative movement. Its objective is promoting campaigns and projects of awareness aimed at helping the third world. In the field of inter-cooperation, formulas from Quebec, Sweden and Germany for cooperative working between NGOs and businesses have been put forward by *Mundukide* as a model. Businesses provide assets and services as well as technical, and personnel resources for development plans. According to those at *Mundukide*, these activities are in line with the cooperative spirit.

In resumé, inter-cooperation for the MCC cooperative, rather than being a real alternative in international business strategy, the way forward is in enabling cooperation projects for third world development to be effected.

#### 4.5 An overall comment on the proposals

As we have seen, each of the proposal mentioned above raises important considerations about how the MCC and its members would be affected by these approaches. Our observations indicate that many members and directors of the cooperatives and the Corporation find themselves in a dilemma. On the one hand, there is clear anxiety regarding the dangers thrown up by the dual nature (cooperative and capitalist) of the Mondragon social-economic system. In this sense, the words of the until recently President of the MCC Corporation, Antonio Cancelo, are significant: 'The model we end up with, wherein numbers of cooperativists 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).

On the other hand, there is reticence to extending the values of the cooperative experience throughout the whole Mondragon complex. That process would involve the cooperativisation of the whole system, or at least the encouragement of a greater degree of democratisation of the governing structures which, apart from being technically complex, not to say nonviable in most cases, is not an aim that is

shared or desired by all directors and members of the Corporation's cooperatives. The cooperatives wish to continue being leading-edge multinational holdings without endangering the control of the peripheral companies or, even less so, of their enterprise system as a whole. This line of argument is in tune with the proliferation of private capital companies on the periphery of the Mondragon cooperative system and, although it can create a number of problems of cooperative identity and coherence, this is but the price that has to be paid in order to consolidate competitive positions and to guarantee the social-economic development of the core cooperative companies (Urdangarin 1999).

Within this context, the MCC Congress,<sup>21</sup> celebrated May 2003, there was an attempt to initiate a process of reflection and debate amongst the directors and members of the Corporation and its cooperatives about the model of external development to be followed. From the capitalistic model of 'no ownership and no participation', to the cooperative ideal of 'full ownership and participation' there is a long road to travel.<sup>22</sup>

However, the road ahead is not clear. In the context of international expansion, the economic interests of the cooperatives (based on ownership and the principle of control of affiliated companies of multinationals) and the desire to extend democratic values (the principle of self- or democratic management) would appear not to be in concordance. The social-economic situation of the affiliated companies, situated as they are in countries of medium development – and in cities with enormous social problems such as Sao Paulo, Guadalajara, Shanghai, Bangkok, Buenos Aires . . . –, mostly with partners from outside the world of social economy and with employees having little experience of participation and poor employment stability, does not facilitate the progress in the delicate field of industrial democracy.

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21 Supreme ruling and representative body of the Mondragon Co-operative Corporation, made up of delegates from all the member co-operative societies, with a maximum of 650 persons. Its objective is to perfect the Mondragon Co-operative Experience and promote the harmonious development of the Corporation through the planning and co-ordination of its activities, based on a strategic management unit.

22 In this way there could be intermediate levels such as 'profit sharing with no participation' and 'profit sharing with participation', options that are currently at play at the MCC.

## 5 Conclusion: in search of a *Democratic Multinational Enterprise*

In this article, we have examined how, in recent years, the Mondragon cooperative experience has undergone a marked process of internationalisation, which has brought with it transformations in its very nature. In this context, we believe that the search for new ways of harmoniously integrating its cooperative principles and values with the global reality of the international economic environment is a necessity. The uniqueness of the MCC cooperative experiences is an opportunity to define parameters for action based on co-operation and economic democracy, both in the immediate environment as well as in the sphere of international business relations.

The principal challenge of the MCC cooperatives, arising from those enveloping exigencies which go beyond traditional cooperative frameworks, lies in coherently linking internationalisation activities with values of a cooperative nature, both through traditional cooperative ways, as cooperative cooperation, and by other means which can facilitate the development of industrial democracy. It is necessary to look for models of subsidiaries and parent companies management that have business effectiveness in addition to legitimacy in terms of democratic principles.

The Mondragon experience has been one of the best examples, on the one hand, of cooperative success on a large scale in all fields of endeavour and, on the other, of regional development with genuine economic autonomy. The MCC current challenge is to structure its foreign affiliates so as to respect the basic principles on which the original cooperatives were founded, so the creation of a *democratic multinational enterprise*.

The paper sets out to be a first step in the analysis and understanding of the features of the internationalisation process of the cooperatives; so these reflections have the main aim, beyond offering final conclusions, to encourage discussion and debate amongst the various agents involved. Nevertheless, the analysis of the design and application of international social-economic policies based on cooperation and on democracy is clearly at an embryonic stage. There is a long and, indeed, exciting, road to travel.

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## **L'internationalisation des coopératives : le cas du Groupe coopératif de Mondragon**

*L'article décrit le processus d'internationalisation des coopératives dans un contexte économique de globalisation. L'analyse se centre sur le Groupe coopératif de Mondragon (MCC) au Pays Basque qui constitue une référence pour les entreprises participatives au plan mondial. MCC est en cours d'adaptation aux mutations du marché et poursuit une stratégie d'investissement direct sur des marchés internationaux prioritaires (joint ventures, investissement en nouveaux sites de production, acquisitions). La première partie de l'étude porte donc sur la situation actuelle: les problèmes et conséquences du processus d'internationalisation de MCC. Dans un deuxième temps, les auteurs envisagent un cadre d'analyse pour développer mesures et stratégies pouvant faciliter une croissance internationale en cohérence avec les valeurs coopératives. La troisième partie de l'article est consacrée à la présentation et la discussion d'un certain nombre de propositions de politique économique et sociale internationale de la MCC fondées sur ce cadre d'analyse.*

## **Die Internationalisierung von Genossenschaften: Der Fall der Mondragon Genossenschaftsgesellschaft**

*Dieser Beitrag gibt einen Überblick über den Internationalisierungsprozess von Genossenschaften in einer ökonomischen Umgebung, die durch Globalisierung bestimmt ist. Die Analyse ist fokussiert auf die Mondragon Genossenschaftsgesellschaft (MCC) im Baskenland, die einen Referenzpunkt für partizipatorische Unternehmen in der ganzen Welt bildet. MCC ist gegenwärtig dabei, sich an geänderte Marktbedingungen anzupassen und eine Strategie der Direktinvestition (joint ventures, greenfield investment und Akquisitionen) auf prioritären internationalen Märkten zu verfolgen. Der erste Teil der Studie behandelt die gegenwärtige Situation: die Probleme und Konsequenzen im Zusammenhang mit dem Internationalisierungsprozess von MCC. Im zweiten Teil betrachten wir den analytischen Rahmen zur Entwicklung von Maßnahmen und Strategien, die die internationale Expansion erleichtern könnten, jedoch in einer Weise, die mehr mit genossenschaftlichen Werten in Einklang steht. Der dritte Teil fokussiert, basierend auf diesem analytischen Rahmen, auf die Präsentation und Diskussion einer Anzahl von Vorschlägen, die bei MCC zur internationalen sozialökonomischen Politik entwickelt wurden.*

## **La internacionalización de las cooperativas: el caso del Grupo Cooperativo de Mondragón**

*Este trabajo tiene como objetivo analizar los procesos de internacionalización de las cooperativas en un entorno económico marcado por la globalización económica. El objeto de estudio lo hemos centrado en Mondragón Corporación Cooperativa (MCC), que con más de 66.000 trabajadores ocupa un lugar preeminente en el tejido empresarial vasco, así como en el ámbito de las empresas de participación y de economía social a nivel mundial. MCC está inmersa en un importante proceso de internacionalización por medio de la inversión directa exterior (joint ventures, nuevas inversiones y adquisiciones), que le ha llevado a situarse en los mercados principales de los cuatro continentes. En la primera parte del artículo analizamos la situación actual, la problemática y las consecuencias de la internacionalización de MCC desde su vertiente social y cooperativa. En la segunda parte, planteamos un marco teórico para desarrollar las estrategias de expansión exterior de una forma más acorde con los valores cooperativos. En la tercera parte, se discuten las distintas propuestas realizadas en MCC de cara al diseño de la política social internacional.*



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