

# **Social innovation in multinational co-ops: Towards a more balanced governance**

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## **1. Introduction**

The viability of cooperatives in a capitalist environment has been a central theme of debate presented by Marxists since the end of the 19<sup>th</sup> century. Concerning discussion of the emancipatory power of cooperatives in the sphere of production, Marx argued that these organizations can constitute a force for transformation as they reflect structural possibilities within social-democratic production. Nevertheless, he also pointed to the contradictions they fall prey to, given that they must thrive and operate under a pre-eminently capitalist system (Marx 1967). The Marxist tradition developed this thesis employing more pessimistic terms, suggesting that cooperatives only reproduce the defects of the capitalist model (Luxemburg 1900; Mandel 1975). In a similar vein, Fabian socialists such as Sidney and Beatrice Webb (Webb and Webb 1914) held that cooperatives are not viable options for the long term, because they tend to collapse as ‘democracies of producers’ and to shift towards being ‘associations of capitalists’ in a process whereby worker participation diminishes substantially, power and control remain in the hands of an oligarchy, the acquisition of profits becomes a primary objective, and the workers’ collective is gradually replaced through the hiring of non-member employees.

These works gave rise to a later development, fundamentally during the 1970s and 1980s, in the shape of the ‘degeneration thesis’ (among others, Meister 1974; Ben-ner 1984; Miyazaki 1984), which suggests that cooperatives are inexorably doomed to fail in commercial terms or to degenerate into conventional forms of business activity under organizational models and priorities similar to those prevailing in the capitalist firm. However, other academic works posed an alternative to this highly determinist negative view of the cooperative life cycle, developing the ‘regeneration thesis’ (Batstone 1983; Rosner 1984; Stryjan 1994; Cornforth 1995), which suggests that cooperatives are able to maintain their original nature in the long term, and that degeneration may be a temporary stage followed by the dynamization of regeneration processes with the power to restore the democratic, participative, social functioning of these organizations.

Over these last two decades marked by the intensification of the neoliberal globalization process, a renewed debate has emerged around the viability of cooperatives and their ability to retain their cooperative practices and values whilst maintaining their competitiveness in the capitalist market (Atzeni 2012; Bretos and Marcuello 2017). As Storey et al. (2014) recently pointed out, degeneration has, historically, been the prism that has dominated the analysis of

cooperatives and continues to display signs of scientific hegemony (see also Cornforth 1995 for a lengthy critique of the literature on cooperative degeneration). In this regard, several works have focussed on degenerative trends experienced, in democratic and participative terms, by cooperatives operating in highly dynamic markets (Cathcart 2013, 2014; Paraque and Willmott 2014). In contrast, other works have concentrated on the possibilities cooperatives offer for reinvigorating worker participation in the firm and standing up to oligarchic management pressures that can arise within these organizations (Hernandez 2006; Ng and Ng 2009; Storey, Basterretxea, and Salaman 2014; Jaumier 2017; Narvaiza et al. 2017). It must be said, though, that these studies have generally been limited to the analysis of small and medium-sized cooperatives that exclusively unfold their activity at the domestic level.

In consequence, while this literature has provided essential contributions, our knowledge of the degenerative and regenerative dynamics that occur in big multinational cooperatives is extremely limited. This research is essential when we consider that cooperatives are being compelled to develop internationalization strategies in pursuit of survival in increasingly competitive globalized sectors (McMurtry and Reed 2009; Bretos and Marcuello 2017). The well-known Mondragon cooperative group provides a fruitful terrain for study of these issues, insomuch as many of its industrial cooperatives are organized as multinational enterprises. To be specific, our work explores, on one hand, the degenerative tendencies experienced by Mondragon's multinational cooperatives through a deterioration in worker participation in favour of greater managerial control, the redefinition of cooperative values in accordance with economic efficiency and productivity, and the setting-up of capitalist subsidiaries where the workers are simply wage-earners. Meanwhile, we examine the regeneration strategies promoted in these multinational cooperatives, placing particular emphasis on the regenerative initiatives designed to export the cooperative model to capitalist subsidiaries.

For these purposes, this study rests on recent empirical works concerning the Mondragon group, along with the authors' own qualitative research conducted over the last few years in some of the most important multinational cooperatives in the group: Fagor Ederlan, Maier, and Fagor Electrodomesticos. This qualitative research utilizes primary and secondary data. The primary data comes from the holding of a great number of in-depth interviews with senior managers in Mondragon and different organizational actors both from the parent cooperatives and from domestic and foreign subsidiaries (taking in managers, expatriates, rank- and- file worker-members, union representatives, employees on temporary contracts, and representatives of the cooperatives' governing bodies). The secondary data, meanwhile, was obtained from a variety of internal records provided by Mondragon and the cooperatives (annual reports, sustainability and social responsibility reports, strategic plans, social statutes, etc.) and from information publicly available in press releases, corporate magazines, audiovisual documents, and similar.

Following this introduction, the next section shows a contemporary 'snapshot' of the Mondragon group. The third section analyzes the different degenerative tendencies experienced by Mondragon's multinational cooperatives, whilst the fourth explores the most relevant regeneration strategies that have been launched. Lastly, the final section gathers together the principal conclusions of the study and draws out some essential implications for the development of organizational theory in relation with cooperatives.

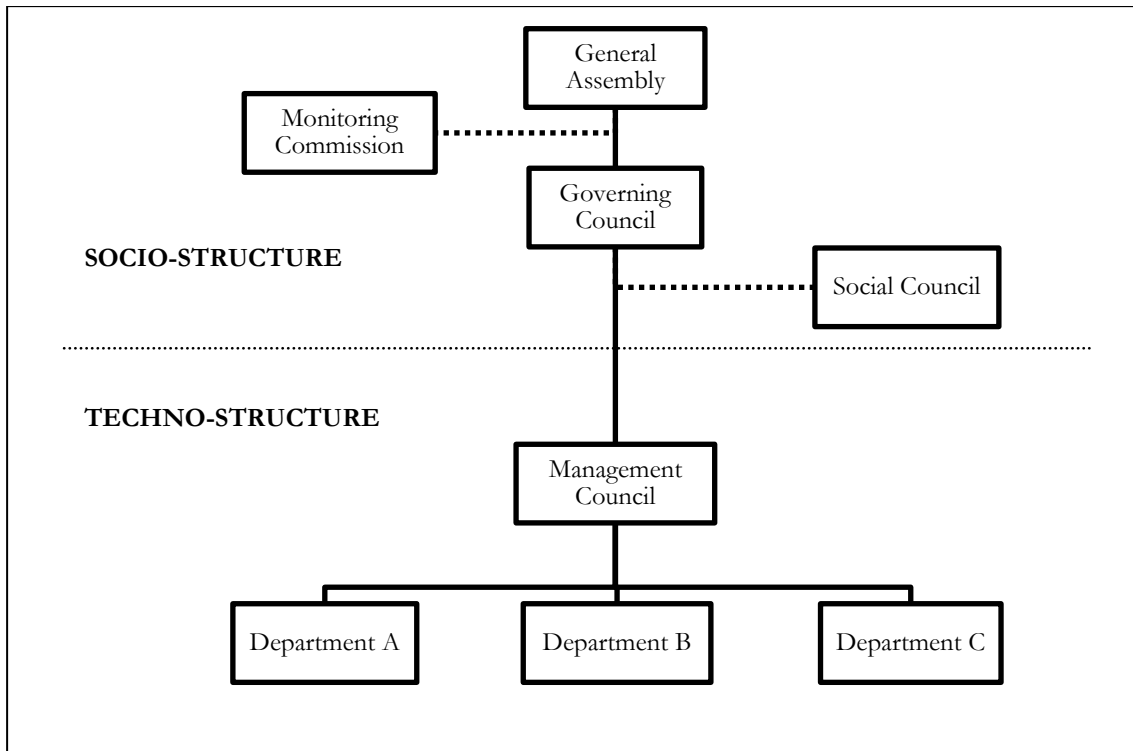
## **2. The Mondragon cooperative system: A general view**

A key aspect that the regional system of governance in the Basque Country is built on is ‘associationalism’ (Cooke, Uranga, and Etxebarria 1997), rooted in a long tradition of working class activism, organizational democracy, and participation in the areas of work and the community (Caro-Baroja 1974). Today, this historical model is reflected in the marked presence of worker-owned firms in the Basque region (Bretos and Morandeira 2016). The *Mondragon Cooperative Experience*, which took off more than half a century ago in the Basque Country, is probably the best representation of this institutional environment (Whyte and Whyte 1991; Kasmir 1996; Cheney 2002). Since its origins, it was an experience anchored in the needs of the local environment, with the creation in 1943 of what is today the University of Mondragon, of the industrial cooperative Ulgor (later to be called Fagor Electrodomesticos) in 1956, and the cooperative credit entity Laboral Kutxa and the system of social protection Lagun Aro in 1959. These four branches clinched the development of the community, promoted hundreds of cooperatives and consolidated what is today known as the Mondragon Corporation (Mondragon 2015). Inspired by the Catholic social doctrine of Father Arizmendiarieta, these cooperatives began as small democratic organizations, with deep roots in the territory and a powerful sense of community, around the concept of *human community work*, grounded in the notion that all the workers were members and co-owners of the company (Molina and Miguez 2008).

However, the Mondragon Cooperative Experience has undergone an extraordinary transformation over the last decades. The competitive and economic pressures of globalization have forced many of their industrial cooperatives to pursue an intense growth strategy, firstly within the domestic market and, since the beginning of the 1990s, in international markets too. Today, the Mondragon Corporation is the first business group in the Basque Country and tenth in Spanish company ranking. The group is set up as a federation and employs 74,335 people in 261 organizations (101 of which are cooperatives) distributed over the areas of industry, finance, knowledge, and distribution. The industrial heart of Mondragon is composed of several multinational cooperatives that control roughly 130 plants abroad. These subsidiaries employ 11,796 people, representing around 40% of the total of employees in Mondragon’s industrial division. More than 70% of sales correspond to international turnover (Mondragon 2016).

This transformation has its reflection in the reshaping of the Mondragon Cooperative Experience under the concept of *humanity at work*, whose new mission combines the central objectives of a business organization competing in international markets with the use of democratic methods in its company organization, the creation of employment, the human and professional promotion of its workers and a commitment to development within its social environment (Mondragon 2015, 21). Nevertheless, cooperative values and practices continue to guide the functioning of Mondragon’s parent cooperatives in the Basque Country. As owners, worker members participate in the distribution of profits and are involved in decision-making in several ways. So, they take part in the General Assembly under the “one person/one vote” rule and can be elected as members of the Governing Council and of the Social Council (Cheney 2005). The governance structure of a Mondragon cooperative is represented in Figure 2.

**Figure 2: Governance structure of a first-tier cooperative**



Source: adapted from Altuna, Loyola, and Pagalday (2013) and Whyte and Whyte (1991)

The General Assembly is the cooperative's supreme body and expresses the corporate will as manifested by all the members. It comprises all the cooperative members and meets at least once a year. This body approves the cooperative's strategic plans and appoints the Governing Council, the Social Council and the Monitoring Commission. The Governing Council is the organ of representation and governance, and its members are elected at the General Assembly. This body is responsible for governing and representing the company, and its decisions are subordinated to the policies and strategies set by the General Assembly. It supervises the administration, appoints the manager and monitors his or her performance. The purpose of the Monitoring Commission is to decide on the proper implementation of accounting aspects and other issues that require its attention. The Social Council fulfils a role resembling that of a union. It is a consultative body that represents the members in the cooperative's internal proceedings. It has an advisory function of social communication and acts as a channel between management and workers. The members are chosen by work areas and are ratified by the General Assembly. Its functions involve employment counseling, information, negotiation, and social control. Lastly, the Management Council is the executive body that manages the cooperative. It is formed by the board members and the manager, who is appointed by the Governing Council and can be removed from office by worker-members (Altuna, Loyola, and Pagalday 2013; Whyte and Whyte, 1991).

Meanwhile, in the work area, workers participate by means of different mechanisms, including joint meetings between workers and management. Internal promotion and job stability are, likewise, paramount for Mondragon (Heras 2014). The dismissal of members is extremely unusual and, in the event of the occasional closure of a plant, its members are relocated within other cooperatives in the group. In a similar vein, the wage differentials in the group's cooperatives are strikingly low, although they have increased from the original scale of 1:3 to today's 1:8 in some cases. As a last point, it should be noted that members receive training both

in technical and business aspects, and in the culture and values of the Mondragon Cooperative Experience (Basterretxea and Albizu 2011).

### **3. Multinational transformation and degenerative pressures**

Although the Mondragon cooperatives have, since their origin, been subject to contradictory demands between democratic institutional logics and those of the capitalist market, the changes brought about by increasing globalization and competition in markets since the 1980s have intensified these tensions (Taylor 1994). Internationalization is a clear consequence. Some industrial cooperatives have been compelled to grow at an international level since the early 1990s to remain competitive and safeguard the jobs of worker members in the Basque plants.

In various ways internationalization and global competition have influenced the transformation of the original values and practices of these cooperatives (see also Bretos and Errasti 2017; Bretos, Errasti, and Marcuello 2017). Our research identified several dynamics that fundamentally affect governance and the nature and scope of worker participation in cooperatives. In first place, the greater organizational size of cooperatives, and the greater complexity of the strategic decisions that must be taken due to being immersed in business dynamics that are changing and global, have been key factors that have affected people's participation. When interviewed, several members recognized a certain ritualization of the General Assemblies and other democratic spaces, remarking that they had become symbolic spaces rather than structures where people really participated.

Similarly, the intensification of the requirements of economic efficiency, stemming from global competition and international growth, has meant that self-management and participation have been displaced in favor of oligarchic management tendencies (Heras, 2014). This transformation has been driven by the greater power of control bestowed on managers who are often more committed to efficiency than to the cooperative culture, coupled with a managerial discourse focused on competitiveness that privileges the interests of profitability and growth (Taylor 1994; Heras and Basterretxea 2016).

These factors are reflected by the fact that Mondragon's multinational cooperatives have imported prevailing models of total quality management, lean production, and just-in-time inventory systems (Cheney 2005; Heras 2014). Many cooperatives in the early 2000s, for instance, introduced the 'mini-company' system aimed at encouraging efficiency and productivity through stronger worker motivation. Mini-companies, in short, constitute a way of structuring the organization so that each of its units runs as a small autonomous firm in which the workers take decisions and resolve problems connected with the work area in the same space where they occur. As was observed in our research, these management models have inculcated a weak, superfluous culture of self-management that promotes forms of managerially controlled participation, limited to low levels of decision in the work area, and assessed in terms of employee motivation and commitment to managerial objectives established from above (see also Cheney 2002; Heras 2014; Bretos and Errasti 2017; Bretos et al. 2017).

Meanwhile, the very model of internationalization pursued by the Mondragon cooperatives constitutes a contradiction. On one hand, the internationalization strategy has been grounded in a 'multi-location' strategy (Luzarraga 2008), that is to say, an expansionist strategy given that new activity opened up abroad does not imply the closure of any pre-existing activity within the

domestic market. On the other hand, growth both domestic and international has nevertheless been based on the setting-up of non-cooperative subsidiaries (capitalist companies) where the workers are simply employees and, in consequence, do not enjoy the same rights as cooperative members in the parent companies, since they do not share in the ownership, distribution of profits, and management of their enterprises (Bretos and Errasti 2017; Bretos et al. 2017). Indeed, although the parent cooperatives have kept up a high proportion of cooperative members as compared with non-member employees (the member collective makes up around 80% of those employed), if jobs in the subsidiaries are also included, this proportion falls to 30%. In this connection, between 1991 and 2007, the percentage of cooperative employment in the whole Mondragon group dropped from 86% to 29.5% (Storey et al. 2014).

In general terms, multi-location has provided the Mondragon cooperatives with extraordinary results, favoring job creation both in the Basque Country and abroad, and endowing them with flexibility to face the economic recession in better conditions (Elortza, Alzola, and Lopez 2012; Luzarraga and Irizar 2012). The number of those employed in the Fagor Ederlan Group, for example, rose from 1,300 workers in 1999 to 3,700 in 2015. By contrast, this pattern was not so evident with the crash of Fagor Electrodomesticos, a symbolic circumstance of great economic and social impact, the company having been the flagship of the Mondragon group. Multi-location afforded Fagor impressive results for years. However, while in 2007 the group employed 11,000 workers, before its collapse in 2013 only 5,500 remained in the group (1,900 of them in the Basque Country). The crash undergone by this cooperative was, in fact, fundamentally due to market conditions, although that does not make it exempt from a range of problems associated with governance, such as those referred to above (Errasti, Bretos, and Etxezarreta 2016; Errasti, Bretos, and Nunez 2017).

The internal mechanisms of the Mondragon system have been crucial for coping with this scenario. Today, the overwhelming majority of the cooperative members affected by the closure of Fagor in the Basque Country have encountered a solution, mainly through relocation in other cooperatives in the group. Thousands of non-member employees in the cooperative and its subsidiaries, however, have been excluded from Mondragon's solidarity mechanisms. That throws the contradictions of these multinational cooperatives into sharp relief, not only where democratic and participatory deficiencies in the capitalist subsidiaries are concerned, but also in terms of the social and working conditions offered in these subsidiaries (Kasmir 2016).

#### **4. Dynamics of regeneration in Mondragon's multinational cooperatives**

After decades of growth that have distanced some Mondragon cooperatives from their social cooperative nature in favor of managerial prerogatives and a market orientation, the group has been enveloped, since the mid-2000s, in a process of reflection directed at refreshing essential aspects of the cooperative model, including social and community transformation, worker participation, democratic governance, intercooperation, and cooperative training and education (Azkarraga, Cheney, and Udaondo 2012). This reflection has resulted in the implementation of regeneration strategies in several cooperatives in the group. On a general level, regeneration initiatives exist to reinvigorate the original practices and values in the parent cooperatives, on one hand, and to extend the cooperative model to the capitalist subsidiaries, on the other.

#### 4.1. Revitalization of cooperative values and practices in the Basque parent cooperatives

Various large multinational industrial cooperatives in the Mondragon group have been attempting, particularly since 2005, to promote projects to recover and revitalize the original cooperative values and practices (Azkarraga et al. 2012; Webb and Cheney 2014).

Whilst, in the 1990s, education about the philosophical, social, and practical aspects of the cooperative movement took second stage to the benefit of technical training (Cheney 2002), over the last years a diversity of projects have been introduced to renovate and institutionalize cooperative training and education in Mondragon cooperatives (Webb and Cheney 2014). These projects are designed and promoted by the LANKI Institute of Cooperative Research at the University of Mondragon and by Otalora, the Mondragon Management and Cooperative Development Centre. In general terms, the aim is not only to strengthen management competencies and facilitate managers' professional development, but also to attend to aspects including cultural development (focused on fostering business management in tune with a more cooperative, constructive, organizational culture), cooperative education (addressed toward providing members of the social bodies with training so they can perform their role competently and advance a feeling of belonging to the cooperative culture and cooperative values among worker members), and social skills such as cooperative leadership and team work (Azkarraga et al. 2012; Basterretxea and Albizu 2011).

This revitalization in cooperative education and training also acts as a support for projects being developed to boost participation both in the social bodies and in the work area. This is fundamentally happening through the reshaping and deepening of communication in the cooperatives. For years now, preparatory meetings prior to the general assemblies have been encouraged in several cooperatives, held in small groups of 30-40 members, the purpose being to lubricate the transmission of information and stimulate participation in those spaces. Informative talks that have traditionally been held to inform workers about key issues in the cooperative are being streamlined to spark off greater participation, dialogue, and reflection. Likewise, the Social Council has been a prime target for transformative and innovative initiatives. Over the last years, several cooperatives have created what are known as "mini-councils", which are periodic meetings to facilitate communication between rank-and-file workers and the Social Council representatives. In light of the saturation affecting the Social Council due to its use by workers as a channel for expressing their complaints, which is a regular problem in the Mondragon cooperatives, Fagor Ederlan has set up "social plant meetings". On a monthly basis, someone from the Permanent Commission of the Central Council, the plant manager, a person from the Social Management team, and the social members at the plant, meet to share information about the management of the plant, settle social problems in their area, and propose subjects to pass on to the Social Council. Similarly, "social business councils" have also been created, bringing together someone from the Governing Council, the Product Line Director, a member of the Social Management, and the social members participating in the business. In these spaces information to do with management is shared, general cooperative matters are discussed, and social affairs that fall outside the remit of the plant meetings are dealt with.

Other particularly dynamic and innovative industrial cooperatives, like Fagor Arrasate, are also experimenting internally with new forms of participation (Webb and Cheney 2014). This cooperative has fostered more participatory dynamics via a more qualitative treatment of

information and the opening-up of spaces for deliberation and more active participation from people. One example is that the advisor's role has been redefined, not only to inform but also to energize participation in the mini-councils. The latter have, in turn, been reshaped to encourage the advisory role of the Social Council.

#### 4.2. Extension of the cooperative model to the capitalist subsidiaries

Beyond these aspects, which fundamentally affect the revitalization of participation and democratic governance in the Basque parent cooperatives, a particularly relevant novel feature consists of the passing, in 2003, of the 'social expansion strategy' by Mondragon's Cooperative Congress. This strategy is a matter of the propagation of cooperative values throughout the capitalist subsidiaries via the development of participation mechanisms for workers, resembling those prevailing in the cooperatives (Irizar 2005). This Congress agreed on crucial objectives, namely: to encourage greater transparency in decision-making in the subsidiaries, implement the same participative management model applied in the cooperatives, advance toward having at least 30% of ownership in the workers' hands, and devoting between 1% and 5% of profits to local development in the territories where the subsidiaries are located (Flecha and Ngai 2014). Later, the Mondragon Corporate Management Model<sup>1</sup> included three essential aspects to be given priority in the cooperatives: Self-management, Communication, and Corporate Development (Mondragon 2013). The first two (Self-management and Communication) encompass both the cooperatives and their subsidiaries, whilst the third category (Corporate Development) is designed fundamentally for the subsidiaries. Where Self-management in cooperatives and subsidiaries is concerned, the Corporation stresses the design of horizontal organizational structures to facilitate participation and team work and enable the collective definition of aims and taking responsibility. Communication is focused on establishing policies of transparency to stimulate interpersonal relations and information flow in the entire organization. Lastly, Corporate Development concentrates on exporting the cooperative model to the capitalist firms by means of the introduction of the cooperative management model.

Over the recent years, these general guidelines, although they do not constitute rules that must be obligatorily complied with, have resulted in a variety of concrete actions taken by some multinational cooperatives, designed to promote the 'cooperativization' of subsidiaries, through implementation of the cooperative model in them. Two main lines of cooperativization can be distinguished in Mondragon. The first and most direct involves the outright transformation of capitalist subsidiaries into cooperatives, and has been used exclusively in the case of domestic subsidiaries. The second line of action, devised in the main for foreign subsidiaries, is based on the partial implementation of some management practices associated with the cooperative model that characterizes the Basque parent companies.

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<sup>1</sup> The Corporate Management Model is the general tool created to homogenize management of all the cooperatives in the Mondragon group and its subsidiaries. This Model is not a detailed action plan, nor does it involve obligatory compliance on the part of the group's cooperatives; rather, it provides general guidelines that each cooperative adapts to its particular context, these being addressed to achieve business management that is both efficient and consistent with Mondragon's corporate culture (Mondragon 2013).



#### 4.2.1. Cooperativization of domestic subsidiaries

The cooperativization of the domestic subsidiaries has mainly been carried out by means of two formulas. One involves the creation of a mixed cooperative<sup>2</sup>, in that the subsidiary becomes a cooperative whose ownership is normally distributed between the actual subsidiary workers, the parent company, and Mondragon Inversiones S. Coop. The other means that, although the subsidiary keeps its legal status, the workers become members of the parent cooperative in the shape of seconded members<sup>3</sup>, thereby gaining access to the ownership, profits, and management of the firm. Some of the first experiences developed by multinational cooperatives came about at Fagor Electrodomesticos. At the end of the 1990s, the Basque subsidiary Fabrelec S.A. became a cooperative (later to be called Edesa S. Coop.), ownership of which was distributed among the subsidiary's worker members, with a 44% share, and the parent Fagor Electrodomesticos. In 2004, the 250 workers of the Basque subsidiary Geysler Gastech became seconded members of the parent cooperative (Errasti and Mendizabal 2007).

Over recent years, particularly noteworthy experiences have taken place in this area (for detailed analyses of the cooperativization of domestic subsidiaries in Mondragon, see Flecha and Ngai 2014; Bretos and Errasti 2016, 2017), where the cases of Maier and Fagor Ederlan stand out. In 2006, most of the 80 workers at the Basque subsidiary Fit Automoción S.A. became seconded members of the parent company Fagor Ederlan; a similar process to that which was recently completed at its other Basque subsidiary Victorio Luzuriaga Usurbil. Meanwhile, in 2008, Victorio Luzuriaga Tafalla S.A., a subsidiary of Fagor Ederlan based in Navarre, was transformed into the mixed cooperative Fagor Ederlan Tafalla S. Coop., and just over half of its 700 workers then took on the status of cooperative members. In 2012, the cooperative Maier conducted a similar process at its Galician subsidiary Maier Ferroplast, where 150 of the 190 workers on the payroll endorsed the transformation of the plant into a mixed cooperative. Our research on these subsidiaries identified several positive effects stemming from their cooperativization, including greater company resilience in the years of economic crisis, improvements in job stability and relations between workers and management, greater worker participation in the firm, an ensuing increase in their motivation and commitment, and a bettering of working conditions.

Nonetheless, important limitations on these processes also exist, hampering the genuine implementation of cooperative practices and culture even despite the legal transformation of these companies into cooperatives. One fundamental limitation is the restricted access of new members to ownership of the subsidiaries. In Fagor Ederlan Tafalla, for instance, the workers acquired only 12% of the company, while the rest remained in the hands of the parent Fagor Ederlan and of Mondragon, which form a majority in the governance bodies of the cooperative subsidiary. In the case of Maier Ferroplast, the fact that the subsidiary was small allowed the workers to acquire a 33% stake. These situations result in some dissatisfaction among workers with the nature and reach of their participation in the company. An internal survey held by Fagor Ederlan Tafalla a year after cooperativization of the subsidiary revealed that 23% of the workers in the subsidiary gave a score of 1 out of 10 for their participation in the company. Then again,

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<sup>2</sup> A mixed cooperative differs from a conventional cooperative, fundamentally in the structure of corporate governance. As defined by Basque Cooperative Law, mixed cooperatives have minority shareholders, whose voting rights in the General Assembly can be determined, exclusively or preferentially, in accordance with their capital contributions.

<sup>3</sup> Seconded members are those who maintain a company link with the cooperative and offer their services in an organization that the cooperative cooperates with or participates in.

there is an evident lack of commitment and knowledge among the new members where cooperative culture and values are concerned. One year after cooperativization, only 7% of the workers at Fagor Ederlan Tafalla stated that they knew the content and meaning of the principles and values of the Mondragon Cooperative Experience, admitting that most of them became members due to the greater job stability that the cooperative formula offered. Likewise, non-member workers who were kept on the payroll after the cooperativization processes, were excluded from the subsidiaries' democratic participative spaces (Bretos and Errasti 2016, 2017).

#### 4.2.2. Cooperativization of foreign subsidiaries

As we indicated above, the cooperativization of the foreign subsidiaries has been based on the partial implementation of certain management practices associated with the cooperative model. Some works that have analyzed such initiatives point out that Mondragon's multinational cooperatives managed to conserve cooperative values and practices during the international expansion and to spread the cooperative model to the foreign subsidiaries (Luzarraga 2008; Lertxundi 2011; Luzarraga and Irizar 2012; Flecha and Ngai 2014; Santos-Pitanga 2015). The argument put forward by these authors is grounded fundamentally in the introduction of specific practices in the subsidiaries such as organization in self-managed teams, workers being trained in technical aspects, or greater communication between employees and management.

Our research into various foreign subsidiaries of the Mondragon group, however, yielded markedly different results (Errasti 2015; Errasti et al. 2016; Bretos and Errasti 2017; Bretos et al. 2017). In general terms, Mondragon's multinational cooperatives have introduced three kinds of practices in a similar way in all the foreign subsidiaries. In first place, all the foreign subsidiaries operate under the same Total Quality Management model and techniques of lean production, meaning that work organization practices in these subsidiaries substantially resemble those which prevail in the Basque cooperative workshops. In second place, the Mondragon cooperatives have implemented mechanisms of direct worker participation. Accordingly, all the subsidiaries have introduced the mini-company model, some sort of employee suggestions system, and the setting-up of periodic meetings between management and workers that encourage the exchange of information regarding productive aspects. Worker participation in the work area is therefore significant in the foreign subsidiaries. Thirdly, all the foreign subsidiaries have brought in variable remuneration systems. In the case of the managers, incentives are set in line with periodically established objectives, while rewards for the plant workers are linked with productivity and production quality.

Meanwhile, where other management practices associated with the cooperative model are concerned (pay equity, job stability, internal promotion, and the continuous training of workers), substantial differences are observed between subsidiaries located in different countries. It is clear, for instance, that scarcely a trace of the cooperative model remains in the Chinese subsidiaries (Errasti 2015; Bretos et al. 2017). Other subsidiaries, in contrast, have managed to advance in the introduction of these kinds of practices to some extent. The Brazilian subsidiary of Fagor Ederlan is an example. This subsidiary has established a social balance sheet using indicators of economic, social, and environmental performance that facilitate a comparison of the characteristics of the parent company with those of the subsidiary. Amongst other aspects, there has been a reduction of differences in the company's wage scales; opportunities for training and

internal promotion for workers have been promoted; working conditions are reexamined annually in collaboration with the unions to keep them at levels resembling or higher than those on offer in the local environment; and social benefits have been added for the workers which include, among others, health insurance, food vouchers, and transport to the plant. All these measures have fostered workers' job stability and welfare (Bretos and Errasti 2017; Bretos et al. 2017). In like manner, before the economic crisis struck, Fagor Electrodomesticos achieved similar advances at its plant located in Poland (Errasti et al. 2016).

Nevertheless, although the cooperative model has been more firmly consolidated in some subsidiaries, it is clear that none of them has been transformed into a cooperative or has consistently introduced the set of practices associated with the cooperative model, particularly where worker participation in the ownership, distribution of profits, and general management of the company is concerned; and these are central aspects of the cooperative formula. Our research identified various factors that stand in the way of the genuine cooperativization of the foreign subsidiaries. On the one hand, there are cultural and institutional barriers. In various countries where the Mondragon cooperatives are located there is no legislation to legally cover the work cooperative formula, as is the case of China, for example. Evidently, that hinders the possible transformation of these subsidiaries into cooperatives. Further, many of these countries have no cooperative tradition comparable to that which exists in the Basque Country, and the employees of these subsidiaries are not accustomed to working within a work culture of cooperation. That certainly makes it hard to establish in these subsidiaries management practices rooted in participation and collective decision-making.

On the other hand, although these institutional factors are relevant, our research identified other obstacles, linked with parent-subsidiary power relations and with the actual interests of the parent, which seem to yet more critically impede cooperativization of the foreign subsidiaries. A key aspect is the perception held among Basque cooperative members that workers in the foreign plants do not develop such a solid commitment to the company and to the cooperative as they do, which, at the end of the day, sparks off suspicions about the success of a hypothetical project of cooperativization in a foreign plant. Likewise, managers and worker members in the parent cooperatives consider that the greater participation and autonomy of the workers in the foreign subsidiaries might prove detrimental for control by the parent over the entire business group, perceiving in consequence that the cooperativization of foreign plants might place at risk the very viability of the cooperative and the jobs of Basque cooperative members.

## **5. Conclusions**

Some recent works have challenged the determinist monolithic view expressed by the 'degeneration thesis', demonstrating that cooperatives are capable of coping with isomorphic institutional pressures—which drive these organizations to adopt organizational forms and priorities resembling those of a capitalist company—and of developing regeneration strategies (Ng and Ng 2009; Storey et al. 2014; Narvaiza et al. 2017; Jaumier 2017). This study complements these contributions on cooperative regeneration through analysis of the degenerative and regenerative dynamics that occur in multinational cooperatives, a field where our knowledge is still extremely limited.

As evidenced by our research, historically speaking, cooperatives and other organizations in the social economy have been exposed to degenerative pressures. Global capitalism and the transformation of some Mondragon cooperatives into multinational organizations have only accentuated already existing tensions between cooperative principles and business success within a capitalist environment, thus affecting democratic governance and participatory systems in these large market-oriented cooperatives. These tensions are fueled by various dynamics, such as the predominance of managerial control at the expense of worker participation, the reshaping of cooperative values and practices in line with the managerial priorities of efficiency and competitiveness, and the annexation of capitalist subsidiaries where rights and benefits associated with the cooperative model, such as job stability and participation in cooperative decisions, are restricted for workers.

Nonetheless, our study also evinces that multinational cooperatives are able to design and implement various regeneration strategies geared to revitalize cooperative values and practices, through the recovery and institutionalization of cooperative education, for example, or by deepening rank-and-file worker participation and the dynamization of different democratic spaces to encourage everyone in the organization to become involved and communicate. Beyond these issues, which fundamentally concern the parent cooperatives, this work has particularly focused on cooperativization initiatives developed over the last years in the capitalist subsidiaries, both domestic and international, whose aim is to extend the cooperative model within them. While these cooperativization initiatives are not without their challenges and limitations, their transformative potential is evident. These kinds of regeneration strategies will, foreseeably, continue to be fundamental over the coming years, considering that cooperatives are undergoing increasing expansion internationally through the acquisition and creation of capitalist companies (Bretos and Marcuello 2017).

To sum up, this research also has important implications for the development of organizational theory regarding cooperatives. Unlike those who champion the degeneration thesis and assume that the challenges in balancing the economic and social dimensions in cooperatives will inescapably lead to their commercial or democratic failure, this study suggests that the best way to address and comprehend such tensions in cooperatives that compete in a market economy is through a 'paradoxical approach' (Hernandez 2006; Ashforth and Reingen 2014). From this perspective, tensions and paradoxes are factors inherent to the survival of cooperatives. The challenge for these organizations lies, therefore, in finding a dynamic equilibrium aimed at unleashing positive organizational changes within a perennial struggle between workers' resistance and management control (Courpasson, Dany, and Clegg 2012). In our opinion, if a time comes when we no longer encounter tensions, paradoxes, and contradictions in cooperatives, the reason will be that these organizations have ceased to be alternative and have lost their transformative potential. In the meantime, cooperatives will have to survive with, through, and beyond those tensions.

## 6. References

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