Cooperatives in the digital era: Labour relations, power and politics within multinational worker cooperatives

Ignacio Bretos, University of Zaragoza, ibretos@unizar.es ; **Anjel Errasti,** University of the Basque Country, a.errasti@ehu.es **; Carmen Marcuello,** University of Zaragoza, cmarcue@unizar.es

Abstract

In this article, the authors provide a study about Labour relations, power and politics within multinational worker cooperatives in the digital era. The article analyzes in detail the cross-national transfer of employment practices in multinational worker cooperatives. Drawing on a qualitative research of two large Mondragon multinational cooperatives based on longitudinal data and 75 in-depth interviews, we address the dilemma raised by the multinationalization of cooperatives through the establishment of capitalist subsidiaries abroad, and show the tensions surrounding the 'cooperativization' of foreign subsidiaries, that is to say, the reproduction of the cooperative organizational formula and the transfer of its idiosyncratic policies and practices to foreign subsidiaries. The main finding of the research is that, behind the instrumentalization of various institutional barriers by the managerial technostructure of the parent cooperatives to justify the non-cooperativization of foreign subsidiaries, lie factors stemming from power relations between the parent company and the subsidiary, as well as from the self-interests of organizational groups within the former.

Keywords

Cooperatives, MNCs, transfer, labour relations, power, human resources, Mondragon

The latest cyclical crisis of the capitalist system and the growing debate around the hegemony of the investor-owned firm model have given rise to renewed attention to worker cooperatives (WCs) as alternative work organizations (Parker et al., 2014). WCs are usually characterized as small local firms that are democratically managed (Williamson et al., 2003), and regarded as the highest expression of participation from employees because they all contribute both labor and capital (Cheney et al., 2014). However, over the last two decades many cooperatives have become multinational companies (MNCs) due to the pressures of globalization (McMurtry and Reed, 2009). Although there is plentiful literature on the internationalization of the capitalist firm (Sapienza et al., 2006), on the dynamics of central control and subsidiary autonomy in the management of employment relations and human resources (ER/HR) (Ferner et al., 2013; Ferner et al., 2004), and concerning the cross-national transfer of employment practices in capitalist MNCs (Quintanilla et al., 2008), our knowledge of these aspects in the case of WCs is extremely limited. This investigation is essential bearing in mind that WCs are expected to 'maintain cooperative values and not to negatively affect employment conditions in their newly created subsidiaries; [and] consequently, they are urged to explore alternative forms of organization that can respond to society's economic, social, and democratic needs' (Flecha and Ngai, 2014: 667).

Our research aims to fill these gaps. The aim is to shed light on the multinationalization process of WCs, the dynamics of control/autonomy between parent cooperatives and foreign subsidiaries in ER/HR management, and the tensions surrounding reproduction of the cooperative organizational formula and transfer of its idiosyncratic worker-centric policies and employment practices to foreign subsidiaries. In this sense, we focus on the diffusion of the WC's distinguishing participatory policies, that is, workers' participation in ownership, profit-sharing, and management (Cheney et al. 2014), as well as of other characteristic HR practices inherent to WCs such as job security, extended training, horizontal communication and information dissemination, teamwork, and compressed wage distribution (Lertxundi, 2011). As noted by Kaarsemaker and Poutsma (2006), all these practices conform together a coherent and solid HRM system.

The Mondragon Group provides a fruitful field for the study of these issues. Created more than half a century ago in the Basque Country (Spain) as a local community experience, since the 1990s many of its industrial cooperatives have pursued an intense internationalization strategy. Today, the Mondragon Group employs 74,335 workers in 261 organizations distributed over areas of distribution, finance, knowledge, and industry. Of these, 28 industrial cooperatives are multinationals that possess 128 productive subsidiaries abroad – all of which are non-cooperative subsidiaries (Mondragon, 2016). In this paper, we provide a qualitative study based on longitudinal data and 75 detailed interviews conducted in relation with two large Mondragon Cooperative Corporation (henceforth MCC) multinational cooperatives.

We contribute to the literature in three directions. In first place, we address recent appeals in the literature (e.g. Bretos and Marcuello, 2016; Cheney et al., 2014), also within the specific context of Mondragon (Heras, 2014), to analyze the possibilities of cooperatives reproducing the cooperative model in subsidiaries. In broader terms, by providing the first in-depth analysis for the WC organizational form, our research contributes to the vast literature on the cross-national transfer of policies and practices in MNCs, which has been dominated by a hegemonic 'capitalocentric' approach based on the exclusive consideration of the classic investor-owned firm model (Parker et al., 2014). Finally, our study also contributes to the broad field of international business (IB) studies, where several authors have called for further research on the role of power relations and the interests of the different organizational groups within MNCs (Geppert and Dörrenbächer, 2014), especially in relation with the transfer of employment practices to subsidiaries (Ferner et al., 2012). In addition, we analyze this question in the concrete case of cooperatives; a field where, as recent works indicate, it tends to be taken as read that policies based on democratic participatory principles coincide with daily practices in the organization (Heras, 2014), and where the role of power and interests has been generally neglected by previous literature (Cathcart, 2013).

Theoretical framework and literature review

Recent mainstream literature argues that internationalization has become an indispensable strategy for firms to stay competitive in markets (Sapienza et al., 2006), especially in situations of economic crisis (Lee and Makhija, 2009). A variety of works have analyzed internationalization strategies pursued by firms, foregrounding offshoring among those of most importance and most frequent application (Feenstra, 2010; Contractor et al., 2010). As noted by Kedia and Mukherjee (2009: 251), 'offshoring has emerged as an effective strategic practice whereby firms relocate their business functions (that were previously performed in-house) to overseas locations'. However, a number of authors have pointed to the fact that offshoring usually involves the destruction of employment in the country of origin and a worsening of labor conditions in the country of destination (Levy, 2005). Williamson et al. (2003) hold that offshoring has a negative impact on labor conditions, weakens local economic stability, and undermines the capacity of democratic self-management in the territories concerned. In this context, some studies have emphasized that it is necessary to deepen our knowledge about the internationalization of alternative forms of organization (e.g. Roberts and Dörrenbächer, 2016). In this regard, Bretos and Marcuello (2016) maintain that we scarcely know why WCs develop internationalization strategies, or how they go about it.

Meanwhile, one key research line today lies in researching the factors that influence the cross-national transfer of employment practices in MNCs, an issue that has been addressed from different conceptual approaches and theoretical perspectives (Edwards et al., 2007). Three broad approaches can be distinguished, offering market-based, institutionalist, or political perspectives. The market-based focus is based on firms confronting strong competitive pressures and, to maintain or obtain international competitive advantages, seeking innovative 'best practices' that they then try to share or enforce in their international subsidiaries (Taylor et al., 1996). Nonetheless, the universalistic assumption that the transfer of 'best practices' offers better results and competitive advantages irrespective of organizational, industrial, or national context has been widely criticized (e.g. Marchington and Grugulis, 2000).

A second approach focuses on the influence of differences in business organization and institutions in the cross-national transfer of policies and practices in MNCs. Among other variants, such as the 'culturalist' perspective, several authors have based their work on the 'neo-institutionalist' theory to analyze transfer in MNCs (Scott, 1995). A crucial concept is 'institutional distance', which refers to the nature of institutional differences at the regulatory, normative, and cognitive levels between the MNC's country of origin and the subsidiary's country of operation (Kostova, 1999). The literature finds that the shorter the institutional distance, the greater will be the 'country-of-origin effect', which 'reflects the fact that MNCs are embedded in the assumptions, practices, and institutions of the national business system from which they emerged' (Quintanilla et al., 2008: 681). In contrast, a greater institutional distance will involve a greater 'host country effect', in that the subsidiary's labor policies and practices will be shaped by local isomorphic pulls and more influenced by the host country (Almond et al., 2005). Purely neo-institutionalist approaches have been criticized since they neglect 'questions about power, coalitions, interests and competing value systems' (Ferner et al., 2012: 164).

Lastly, there is an emergent 'political' perspective, which is usually employed in combination with the institutional perspective; this new approach places emphasis on how actors use different resources and mechanisms in order to protect or further their own interests (Edwards et al., 2007). This view consequently holds that the transfer of policies and practices in MNCs is shaped by the interplay of interests and the deployment of power resources by various actors. The literature suggests that if subsidiaries have power resources stemming from their embeddedness in the local institutional context, they will be able to resist or negotiate the transfer from the parent company (Ferner et al., 2005). Additionally, parent companies also have mechanisms at their disposal to exert centralized control over subsidiaries and transfer policies and practices in a standardized fashion, neutralizing their possible resistance, as well as to overcome institutional hurdles within the host country (Ferner et al., 2004). This intertwines with the possibility of different actors in the MNC having conflicting interests regarding the transfer of a particular policy or practice. Accordingly, the MNC has been conceptualized as a 'contested terrain' (Edwards and Belanger, 2009) with a plethora of struggles for control and autonomy, and conflicts in the transfer of policies and practices. Several authors have underlined that the analysis of the dynamics of parent–subsidiary power relations, the role of micro-political processes, and of the influence of organizational groups' self-interests in MNCs (Dörrenbächer and Geppert, 2011; Geppert and Dörrenbächer, 2014), should be developed further, particularly where the cross-national diffusion of policies and practices is concerned (Ferner et al., 2005; Ferner et al., 2012).

Although this literature may serve as a general framework for our study, research on these aspects in the case of WCs has been extremely limited. This is paradoxical considering that, as various works show, a host of cooperatives that operate with subsidiaries abroad have arisen over the last years (e.g. McMurtry and Reed, 2009). Indeed, many authors have suggested the need to analyze the difficulties and opportunities that multinational cooperatives face for the reproduction of the cooperative model in foreign subsidiaries (Bretos and Marcuello, 2016; Cheney et al., 2014; Flecha and Ngai, 2014).

The Mondragon Group case is one of the few exceptions in that the literature has, to a degree, studied some of these aspects. Nevertheless, as recent studies hold (Heras, 2014; Azkarraga et al., 2012), Mondragon tends to be studied from an idealized point of view, without critical assessment of the real tensions and contradictions. This means that the literature usually highlights MCC as a reference in the combination of global business success with the utilization of democratic methods, where the internationalization strategy has strengthened its competitiveness whilst creating employment in the Basque Country and abroad (e.g. Luzarraga and Irizar, 2012).

Some works (Clamp, 2000; Errasti et al., 2003) do suggest some contradictions in MCC's internationalization model, in that it is grounded in the setting-up of capitalist subsidiaries. The work by Errasti (2015) analyzes the employment relations in Mondragon's foreign subsidiaries in depth, concluding that there is not a trace of the Basque parent companies' cooperative model to be found in them. However, this study is silent as to why the mother organizations cannot – or do not wish to – reproduce the cooperative model in capitalist subsidiaries. Bretos and Errasti (2016) examine the conversion of an MCC domestic subsidiary into a cooperative, but provide no further elucidation as to why all the Group's foreign subsidiaries still remain as non-cooperative subsidiaries. Flecha and Ngai (2014) analyze in greater depth the implementation in some foreign subsidiaries of certain characteristic policies of the cooperative model and conclude, from an excessively idealistic viewpoint, that the MCC cooperatives have been able to reproduce the cooperative model and its distinguishing policies in the capitalist subsidiaries.

In consequence, it appears necessary to conduct a deeper and more critical analysis of the cooperative multinationalization process, and also of the tensions surrounding implementation of the cooperative organizational formula in foreign subsidiaries and the transfer to them of this model's idiosyncratic worker-centric policies and employment practices.

Data and methods

To approach these issues, we carried out a qualitative empirical study on two multinational cooperatives in the Mondragon Group: Fagor Ederlan (henceforth, Ederlan) and Fagor Electrodomesticos (henceforth, Fagor). The automotive supplier Ederlan is one of MCC's cutting-edge cooperatives. Likewise, it is one of the most active co-ops in terms of extension of the cooperative model to its subsidiaries. The firm employs almost 3,600 workers at the 19 plants it runs in Spain, China, Brazil and Slovakia. The household manufacturer Fagor, meanwhile, came to employ almost 11,000 workers at its 18 plants spread between Spain, France, China, Poland, Morocco, and Italy before it entered into liquidation at the end of 2013. It is worth noting that the research on Fagor presented in this article unfolded during 2012 and does not, therefore, cover the events surrounding the cooperative's closure. Notwithstanding, this analysis has strong potentialities for addressing the aims of this study. On one hand, Fagor has constituted the Group's historical reference, and many researchers have focused their studies on Mondragon through this cooperative, as the pioneering work of various Cornell University scholars confirms (e.g. Johnson and Whyte, 1977). On the other hand, Fagor was the first cooperative to develop an internationalization strategy, which was later followed by other industrial cooperatives including Ederlan. Similarly, this analysis throws particular light on the tensions aroused if transference of the cooperative model's policies and practices to subsidiaries is contemplated; tensions similar to those facing other multinational cooperatives today.

Our research followed the methodology of 'contemporary case studies' (Yin, 2013). This approach is particularly suitable for our case, as it enables entry into a study area in which extant research is limited (Eisenhardt and Graebner, 2007) and, further, provides great potential both for contextualizing and for producing causal explanations in the broad field of international business (Welch et al., 2011), where it has been extensively employed. This methodology is specifically apt for highlighting ER/HR management in subsidiaries (Ferner et al., 2004) – above all in the case of Mondragon, where the subsidiaries have been described by some authors as 'black boxes' (Errasti, 2015). In addition, it is also suitable for studying the power dynamics in parent-subsidiary relations and examining how the interests of the different actors and organizational groups influence the political process that shapes diffusion of policies and practices in MNCs (Edwards et al., 2011).

Flowing from the nature of this methodology, various techniques were utilized to obtain the data (Yin, 2013). We had access to a range of internal documentation furnished by both cooperatives and dating from the early 1990s onwards (strategic plans and management plans, statutes, regulations governing the internal regime, sustainability reports, and suchlike). We also consulted material gathered on their web pages, in-house magazines, items from media archives, and published interviews.

But we also conducted 75 face-to-face interviews, with an average length of 90 minutes, employing semi-structured questionnaires. In Ederlan we held 23 interviews between 2012 and 2015 with worker-members, salaried and temporary workers, managers, members of the Governing Council, and union representatives. Twelve of these interviews were conducted in domestic plants, 7 at the Chinese subsidiary Fagor Ederlan Auto-Parts Kunshan and 4 at the Slovakian subsidiary Fagor Ederlan Slovensko. Meanwhile, in Fagor we carried out a total of 52 interviews, held during 2012. Twenty-five of these were conducted in domestic plants with worker-members, temporary workers, managers, members of the standing committee of Mondragon, and representatives of the Governing Council, the Social Council, and the quasi-union AK of Fagor. We also held 27 interviews at the plants of Fagor-Mastercook in Poland and of Fagor-Brandt in France with managers, workers, and union representatives.

Bearing in mind the importance of selecting appropriate sites in which to conduct interviews, given that 'locations are a part of the many ways that participants' roles, identities, and power are constituted in the interview experience' (Elwood and Martin, 2000: 654), we conducted interviews in different places. The interviews with top managers took place in the plants indicated above, where we visited shop floors and other workplaces. Most of the interviews with people who did not hold manager posts, however, were conducted away from possible institutional constraints of the organization, in different spaces such as cafeterias, universities or associations, thereby obviating 'organizational silence' and favoring the securing of critical veracious information (Morrison and Milliken, 2000). Despite the limitations involved in interviews due to possible subjective perceptions on both the researcher's and the interviewee's part, they constitute a solid strategy because interaction with people involved in the organizations, institutions, and communities that form part of the research context not only makes it possible to describe the social reality, but to provide scientific knowledge about how it can be transformed (Flecha and Soler, 2014).

The multinationalization of Mondragon cooperatives: from local co-ops to 'coopitalist' hybrids

The Mondragon experience came about in the Basque Country as a result of the setting up of Fagor (previously called Ulgor) in 1956, around which a whole number of cooperatives were created, including Ederlan in 1963. Inspired by the priest Arizmendiarrieta's Catholic social doctrine, these cooperatives started out as small democratic organizations, with strong roots in the territory and a powerful sense of community, around the concept of a *human work community* based on the notion that all the workers were partners, financiers, and co-owners of the enterprise. A prime objective of the cooperatives was to promote personal development at work, and encourage the creation of new co-ops and new cooperative jobs to drive the socio-economic development of the community (Mondragon, 2015).

The Mondragon experience has, however, undergone an extraordinary transformation since then, especially over the last decades as the globalization of markets has left its mark. Growing competitive pressure has generated profound structural changes focused on achieving greater economic efficiency and competitiveness (Heras, 2014), unleashing a process of 'hybridization' (Battilana and Dorado, 2010) which was underpinned by a dual conflicting logic straddling social purposes and commercialization requirements, thereby setting off new dilemmas and paradoxes in these organizations. This is reflected in the reshaping of the MCC experience under the concept of *humanity at work*, whose new mission 'combines the core goals of a business organization competing on international markets with the use of democratic methods in its business organization, the creation of jobs, the human and professional development of its workers and a pledge to development with its social environment' (Mondragon, 2015: 21). As a worker-member of Ederlan recalled:

> There was a huge change from the end of the 80s, start of the 90s, onwards. We were already a big group, but we only operated at a national level. Lots of foreign multinationals started to arrive, though, using processes much more innovative and competitive than ours. Important changes were needed for us to adapt to the new rules of the game; and then came internationalization, which quite definitely marked a turning point.

One of the most drastic factors to influence this transformation was the intense internationalization strategy pursued by many industrial cooperatives since the 90s aimed at maintaining their competitiveness and safeguarding the jobs of cooperative members in the Basque plants. As a top manager from Ederlan put it:

> Many of the Mondragon cooperatives are in highly globalized competitive sectors. At the end of the day, if we want to survive in these sectors (…) we must follow our customers and be present in the main world markets (…). Internationalization has been fundamental for keeping cooperative employment in our plants and, further, we have also created jobs and wealth abroad, even during these last years of crisis.

The international expansion of MCC was rooted in the model known as ‘multi-localization’ (Luzarraga and Irizar, 2012), an expansionist internationalization strategy that is creative, because the new activity opened up abroad does not involve the closure of any pre-existing activity. Consequently, unlike the offshoring model practiced by many capitalist multinationals, the Mondragon cooperatives have expanded following their customers in search of new emerging markets, without that meaning the closure of plants and the destruction of jobs in the Basque Country (Luzarraga, 2008). As a Fagor manager pointed out:

> Fagor became a multinational so as to be able to compete with the multinationals that were entering Spain. We carried out an internationalization strategy in order to preserve jobs and the viability of the cooperative. Our strategy was based on multi-localization, and not on offshoring, to gain access to new markets.

In general terms, this strategy furnished the Mondragon cooperatives with extraordinary economic results, whilst favoring the creation of employment both in the Basque Country and abroad, and has enabled them to cope with the crisis satisfactorily (Luzarraga and Irizar, 2012). So, employment increased in the whole Fagor Ederlan Group from 1,312 workers in 1999, when internationalization had scarcely taken off, to almost 3,600 workers in 2015. Similarly, in the Basque plants the number of workers rose from 1,452 to 1,641 between 2003 and 2008 (Fagor Ederlan, 2009, 2016). Notwithstanding, it must be said that this pattern was not so evident with the crisis that hit Fagor. While the multi-localization strategy provided Fagor with extraordinary results for years, to a point where it employed over 11,000 workers in 2006, before its collapse in 2013 only 5,500 workers remained – 1,900 of whom were in the Basque Country.

Nonetheless, the fundamental contradiction lies in the fact that internationalization was based on the setting-up – through acquisition, greenfield investment, or joint ventures – of capitalist subsidiaries within national territory and, especially, abroad (Errasti et al., 2003). The workers in these subsidiaries are salaried and have no stakes in the capital, the distribution of profit, election of the governing bodies, nor in the daily management of the firm, as the cooperative members of the Basque parent companies *do* (Clamp, 2000). Consequently, multinational Mondragon Group cooperatives have suffered from a process of degeneration through employing capitalist organizational structures and generating non-cooperative employment in their organizations (Cornforth et al., 1988). As a matter of fact, business groups such as Fagor and Ederlan have more salaried workers on their books than they do worker-members. In 2007, only 36% were worker-members in the Fagor Ederlan Group (Fagor Ederlan, 2009), a similar percentage to that of Fagor Electrodomesticos.

So it is that the multinational Mondragon cooperatives have been transformed into what we might term ‘coopitalist’ hybrids, that is to say, they are made up by a cooperative core (parent company) and a capitalist periphery (subsidiaries) pursuing institutional logics (Battilana and Dorado, 2010) that compete between a capitalist logic (based on a search for growth, competitiveness, and profit through the establishment of capitalist organizational structures abroad) and a cooperative logic (based on the social goal of maintaining cooperative employment and the values of solidarity, democracy, and participation in the core). The dilemma lies in that, in order to achieve the social goal in the core, institutional structures are being created abroad that promote precisely the opposite aim.

Cross-national diffusion of worker participation-oriented policies and employment practices

Particularly after approval of the 'social expansion' strategy at the Eight Cooperative Congress, held in May 2003, Mondragon and its multinational cooperatives adopted a discourse that refers to the importance of developing 'cooperativization' projects in the capitalist subsidiaries, addressed toward directly transforming the latter into cooperatives or, at least, implementing in them policies and practices to stimulate worker participation in ownership, profit-sharing, and management (Mondragon, 2013). This is the consequence of growing pressure – stemming from renewed internal debate about the future of the MCC experience and from greater scrutiny and criticism from a range of researchers – to seek formulas to extend the cooperative model to the capitalist subsidiaries (Azkarraga et al., 2012). In this context, some advances registered within the domestic field stand out, where some subsidiaries have been cooperativized: Fagor transformed its subsidiaries Edesa and Geyser Gastech, both located in the Basque Country, into cooperatives; and Ederlan cooperativized its Basque subsidiary FIT Automocion and is currently doing the same with another Basque plant, Victorio Luzuriaga Usurbil. In 2008, Ederlan also transformed its subsidiary Victorio Luzuriaga Tafalla (located in Navarre, an autonomous community adjacent to the Basque Country) into a mixed cooperative[1]. But advances in the case of foreign subsidiaries have been practically non-existent.

The instrumentalization of institutional factors as a 'smokescreen'

It is certainly far more complex to develop these cooperativization processes abroad due to the greater institutional distance between the country of origin of the parent cooperative and the country where the subsidiary is located (Kostova, 1999). In the managerial technostructure of Mondragon, allusions to a variety of institutional factors tend to be made as a 'smokescreen' to justify the non-transformation of foreign subsidiaries into cooperatives.

One of the principal barriers that is often pointed to is the fact that in the destination country either no cooperative legislation has been developed, or the legislation in place bears no similarity to that of the Basque Country (Flecha and Ngai, 2014; Mondragon, 2013). This institutional distance where the normative dimension is concerned – referring, that is, to differences in the rules and laws applicable in the institutional frameworks in the two countries (Scott, 1995; Kostova, 1999) – was brought up by various of the Ederlan managers interviewed, when they mentioned the attempt to transform its Brazilian subsidiary into a mixed cooperative. This particular initiative stands out as the only attempt made to date by

[1] Mixed cooperatives are 'cooperatives whose members have voting rights in the General Assembly, one part of them depending on the amount of capital that they have provided' (Flecha and Ngai, 2014: 673).

MCC to convert a foreign subsidiary into a cooperative. The President of the Fagor Ederlan Group explained it as follows:

> When the cooperativization project for the Victorio Luzuriaga Tafalla plant was designed, the mixed cooperative formula lay outside the legislation in force in Navarre, but this problem was overcome thanks to pressure from Mondragon for the passing of a new law governing cooperatives. This is far more complicated to achieve in the case of a foreign subsidiary (...). In Brazil we analyzed the possibilities of transforming a plant into a mixed cooperative, but the differences between our cooperative legislations prevented us from going ahead with the project.

Taking these legal difficulties for granted, the Mondragon managerial technostructure began to base its discourse on other alternatives to bring the management model of the foreign subsidiaries closer to the cooperative model characteristic of the Basque parent companies. As the same interviewee pointed out:

> We are trying to make the ways of functioning in the subsidiaries equivalent to those here, but without changing the actual set-up of the plants. We don’t believe the important thing is for the subsidiaries to transform into cooperatives in legal terms, but wish rather to stimulate democracy and worker participation in them (…). The aim is to get cooperative culture to take root, and at least to share management models.

In this context, the managers mention the progress made in the Brazilian subsidiary, due in part to a less marked institutional distance, both in the regulatory dimension, grounded in the values, beliefs, and social norm of individuals in a particular country; and in the cognitive dimension, in terms of the perceptions and interpretations of reality and the environment that are broadly shared by those individuals (Scott, 1995; Kostova, 1999). Brazilian firms operate in a highly collectivist culture (Beekun et al., 2003) and, to a great degree, employees value non-monetary social goals over financial performance (Nicholls-Nixon et al., 2011). In this regard, the greater proximity between cooperative culture in the Basque Country and Brazil proved to be a fundamental factor. In the southeastern part of Brazil, where the subsidiary is located, there is a solid cooperative tradition and self-management culture, although cooperative firms were negatively perceived for a long time in the collective imaginary of Brazilian society on account of what some have called ‘pseudo-cooperatives’ (Lemaître, 2013), a situation that has been turned around over the last few years.

In this subsidiary a social balance has been established with indicators of economic, social, and environmental performance that place the characteristics of the subsidiary in alignment with those of the mother company (Luzarraga and Irizar, 2012). This is illustrated by the fact that occupational risk prevention policies have been implemented in this subsidiary, enabling workers to communicate to the management potential labor risks that they have detected, and to participate directly in the planning of preventive measures (Fagor Ederlan, 2009). The internal communication model, based on horizontal dissemination of information, has also been reproduced in the subsidiary. Meanwhile, some of the social equity policies that characterize the parent company have also been transferred: professional careers in the Brazilian subsidiary are divided into 6 categories, and for each of them a salary level is established and a series of labor training objectives are defined. These and other labor conditions are reviewed on an annual basis to keep them at levels higher than the firms in the area (Luzarraga, 2008: 339-341). Furthermore, the internal promotion policies that typify the mother company have also been introduced so that, in combination with the workers' continuous training model, it has been possible to drastically cut down on employee turnover and encourage job security (Fagor Ederlan, 2009). When asked about the unique advances achieved in this subsidiary, the HR Director of Ederlan had these points to make:

> This is the example to follow in other foreign subsidiaries. It benefits us all. Through these policies we have managed to encourage workers to become more involved in the firm, and that positively affects plant productivity and, consequently, that of the whole group (…). It should also be said that, of our enterprises abroad, this plant has been open the longest, allowing us to work with them on these aspects over the long term.

However, the progress achieved in this plant is practically an exception in Mondragon. The situation of other subsidiaries exemplifies to a greater degree the instrumentalization of other institutional factors too, such as the possible lack of cooperative culture among workers in the foreign subsidiaries – an aspect that also tends to be employed by the managerial technostructure to justify the unwillingness to cooperativize the plants abroad (Flecha and Ngai, 2014; Mondragon, 2013). Neither Fagor nor Ederlan have even contemplated the possibility of making any of their other foreign subsidiaries cooperatives. Referring to the hypothetical cooperativization of the subsidiaries in China and Morocco, a Fagor manager said the following:

> We haven't even considered it. Anyway, I don't think it could be done, firstly, because the legal difficulties would be immense but, above all, because no cooperative culture exists there as it does back here.

The case of China illustrates several of the existing institutional barriers. On one hand, in China there is currently no legislation to protect work cooperatives (CICOPA, 2015). On the other, China has a heritage of autocratic managerial styles structured within strongly centralized powers, where the hierarchy plays a fundamental role in the management of firms (Gamble, 2003). Chinese labor culture, the 'way of doing business', and the labor market dynamics are very different from those practiced in the Basque Country. Some of the characteristic elements of Kunshan Industrial Park, where Ederlan's Chinese subsidiary is located, are the dynamism of the labor market (unskilled workers are continually changing jobs in pursuit of better wages, and the dismissal of workers is extremely simple due to the limited labor protection and the absence of unions), the lack of creative, participatory, and teamwork skills in workers, and the absence of training programs for unskilled workers (Errasti, 2015). All of which hampers implementation of the cooperative model, which is rooted in principles such as democratic decision taking, economic participation, and the involvement of workers in managing the firm. As the general manager of Ederlan's Chinese plant, a Basque expatriate, indicated:

> The possibility of transforming this subsidiary into a cooperative is not on the agenda (…). The case is very different than that of Brazil and, of course, has nothing to do with the initiatives that have been carried out in the Basque Country (…). I think it would be very complicated for the workers to adapt to a cooperative's mode of functioning.

In fact, the workers at the Chinese subsidiary were not exactly aware of what a work cooperative means and, when they had it briefly explained to them, they certainly showed no willingness to work under such a model. One of them expressed it as follows:

> Here [in Kunshan] we are not trained to work in a cooperative. I don’t think the workers would be willing to invest their money in the cooperative, because we need it to get by. We scarcely have any holidays, and work loads of overtime in order to save [...]. I’m doubtful as to whether we would be capable of managing the firm by ourselves. We’re not used to taking group decisions. We just do what our supervisors tell us.

These institutional factors unquestionably present considerable difficulties for reproduction of the cooperative organizational form and its characteristic HR practices in foreign subsidiaries. Nevertheless, it is equally obvious that the Mondragon cooperatives have made extremely limited moves in that direction. No foreign subsidiary, in fact, operates under the cooperative organizational form, and no progress has evidently been made to implement worker participation policies in the ownership, profit distribution, and management of the foreign subsidiaries, all of which are key components of the cooperative model (Cheney et al., 2014).

To take another example: as emerges from our interviews, the possibility of introducing the notion of a European Cooperative Society has not been explored in any of the foreign plants located in European countries. Although this is a measure that might help to overcome the normative institutional distance that stands in the way of transforming European capitalist subsidiaries into cooperatives, it is simply regarded as ‘unreal’, as a Fagor manager told us.

Moreover, some members of the research center MIK (Mondragon Innovation & Knowledge) who witnessed at first hand the attempt to cooperativize the Brazilian subsidiary ascertained that Ederlan did not do all it might have done to press ahead with the project, fundamentally underlining the fact that Brazilian cooperative law did not present insurmountable differences when compared to the Basque equivalent. As one of them stressed:

> The Brazilian plant offered extraordinary conditions for being made into a cooperative. A powerful culture and a cooperative tradition exist, and they have solid legislation for work cooperatives. I reckon the question of legal differences was actually more of an excuse on the part of Fagor Ederlan, because it could have been achieved with time and effort.

Another noteworthy example is the case of China. Ederlan’s Chinese subsidiary is located in Kunshan Industrial Park, one of the Mondragon International Clusters where 19 plants belonging to 10 Mondragon cooperatives are situated. These clusters provide the latter with greater opportunities to implement their socio-economic policies in the management area of human resources and labor relations, for instance (Luzarraga, 2008). Notwithstanding, the labor policies and work conditions are at a complete remove from those in place in Mondragon, and can scarcely be distinguished from those in force in the conventional multinationals in the surrounding area (Errasti, 2015). As the HR Director at Ederlan remarked:

> At the Chinese subsidiary we have not moved forward in policies promoting worker participation; this is non-viable right now and, as for the future, I don’t know. At the moment, we’re trying to implement policies to reduce employee turnover -through increased labor training, for instance, because this is a problem in many of our cooperatives in Kunshan.

The role of power and interests 'behind-the-scenes'

The instrumentalization of institutional factors by the managerial technostructure of the Mondragon cooperatives reveals the existence of other factors 'behind-the-scenes' arising from parent-subsidiary power relations and from the influence of particular interests of organizational groups in the parent company that prevent the cooperativization of plants abroad.

In first place, in a context of increasing 'Anglo-Saxonization' in human resource management practices, Mondragon cooperative multinationals have clearly adopted Anglo-Saxon management techniques in the approach to their subsidiaries, characterized by the exertion of a strong degree of centralized control over them (Ferner et al., 2013) and by the transfer of policies and practices in a highly standardized and formalized manner (Quintanilla et al., 2008). As we indicated above, the prime objective of internationalization in Mondragon is to maintain competitiveness to safeguard employment and job stability in the Basque parent companies. To this end, the latter only transfer activities that are no longer profitable in the Basque Country, hold on to decision-making power over the business group as a whole, and retain the core functions in management, product design, R&D, and so on (Errasti et al., 2003). As a member of the top management at Ederlan admitted:

> The aim [of internationalization] is to maintain cooperative employment in the plants in the Basque Country, whilst we create employment and wealth abroad. Obviously, this means we will take strategic decisions with this in mind, thereby holding on to key resources and the activities with the greatest added value in our plants.

So, the foreign subsidiaries have a strong degree of resource dependency vis-à-vis the parent company co-ops, with very restricted autonomy in strategic, technical, financial, and commercial aspects; areas that, moreover, tend to be managed by expatriates or managers very close to the parent (Errasti, 2015). This is how the company at home can transfer policies and practices in standardized form without resistance from the foreign subsidiaries. In this regard, all the subsidiaries have introduced the same Total Quality Management (TQM) system that is applied in the parents. On one hand, it makes it possible to attain the internal consistency necessary to compete efficiently in international markets (Ferner et al., 2004). On the other hand, export of this system is oriented to achieve goals of improved productivity and flexibility through the inculcation of a rhetoric focused on efficiency and competitiveness, and on the implementation of shallow forms of participation, which are managerially-controlled, exclusively focused on the workplace, and assessed in terms of employee motivation and commitment to managerial objectives (Freeman et al., 2007). A manager of Ederlan's Chinese subsidiary, an expatriate from the parent company, explained it this way:

> Our task is to consolidate the subsidiary and make it profitable in the long term. We try to facilitate the transfer of policies and practices set by Fagor Ederlan headquarters under their supervision. Here, as in the rest of the subsidiaries, the same TQM system as in Mondragon has been implemented.

A clear example of these dynamics is the diffusion of the 'mini-company' model throughout all the subsidiaries, both of Fagor and of Ederlan. The mini-companies are, in a nutshell, the practical realization of quality management for work organization, and their fundamental objective is to increase productivity through the involvement and motivation of the workers in the work area. As the manager of a Basque Fagor plant defined it:

> Mini-companies are an advanced system for continuous improvement of daily activity, applying the principles of TQM at all levels in the company, that is, in its three key pillars: customer focus, economic efficiency, and elimination of waste, and improving internal operations (…). The idea that lies behind this is that each mini-company operates as an autonomous firm, with the involvement of all the workers and assistance from all the firm's departments. The ultimate aim is to increase productivity and efficiency through worker participation in daily work.

Likewise, as the HR Director of Fagor Ederlan elucidated:

> Transfer of the 'mini-company' model to the subsidiaries is fundamental. Firstly, because greater involvement from the workers through this model has very good repercussions on their productivity and, ultimately, it bolsters the economic and organizational efficiency of the subsidiaries. Secondly, because all the units need to share a homogenous work system in order to attend to the overall demands of our customers.

However, there is evidently not a real willingness to transfer policies and practices that promote deep worker participation in the ownership, profit-sharing, and management of the foreign subsidiaries and, much less, to transform them directly into cooperatives. On one hand, the parents are unwilling to lose control over all their business groups by transferring policies based on worker participation in ownership and giving greater mayor autonomy to the subsidiaries, because they consider it might be detrimental for the viability and survival of the Basque plants. As a worker-member of Fagor remarked:

> Taken to the extreme, the Fagor-Brandt and Fagor Mastercook workers might be a majority and, for instance, decide to close the Mondragon plants.

An Ederlan manager also put forward a related idea:

> It's a complex issue. If, say, the Chinese or Slovakian subsidiary became cooperatives and had full decision-making autonomy, no-one can guarantee us that they will remain in the Group [Fagor Ederlan], and this produces uncertainty about the viability and survival of our cooperative.

On the other hand, a perception exists among the managers and worker-members of the parent companies that the workers at the foreign subsidiaries won't develop as strong an identity and commitment to cooperative values and the company as theirs is. It all seems to stem from the lack of relations, links, and trust between the parent and the foreign subsidiaries. In the Mondragon cooperatives, the relationship between the members of the parent and the foreign subsidiaries is practically non-existent (Errasti, 2015). A clear example of this disunity and lack of understanding is the absence, in all of the multinational Mondragon cooperatives, of a European Works Council (EWC) through which workers in the European Union have a right to information and consultation regarding company decisions at the European level. As a trade union representative of a French Fagor plant complained:

> The Fagor parent company has a clearly laissez-faire attitude. No EWC or similar body has been created to let workers participate in decisions about the company, or to encourage relations between the parent company and the subsidiary.

Ultimately, this perception generates uncertainty among managers and worker-members about the success of a hypothetical cooperativization process in a foreign subsidiary, considering that it might put job stability at risk in the Basque plants. This concern was pervasive in the interviews. This is how an Ederlan worker-member described the picture:

> We have no contact with the workers in the foreign subsidiaries. In other plants that have been turned into cooperatives here, like the one at Tafalla, we did maintain a closer relationship (…). I think it's difficult for a cooperativization project to be successful in a foreign subsidiary. You don't acquire cooperative values overnight. What's more, I don't think they [the workers in the foreign subsidiaries] are going to develop an identity and take on such a solid commitment to the company as ours is with Fagor Ederlan. At the end of the day, if the cooperativization of a foreign subsidiary is not successful, it affects us all.

A member of the top management of an Ederlan domestic subsidiary expressed himself along similar lines:

> There is a close relationship between the members of the parent and ourselves, but we don't have a relationship, for example, with the Chinese subsidiary. Their labor culture clashes with our cooperative values and our way of understanding work relations here. I don't think the transformation of a foreign subsidiary into a cooperative is likely to be successful. This is a risky scenario; it could endanger our jobs.

As can be seen, the cooperativization of foreign subsidiaries is regarded in the parent company co-ops as a problematic issue, as it might put the viability of the whole business group at risk and jeopardize the job stability of the worker-members, thereby generating a contradiction with the ultimate objective of internationalization in the Mondragon Group: keeping cooperative jobs in the Basque plants. This is consistent with recent works that have shown that, in a context of growing unemployment and job insecurity, job security is the most solid link that binds worker-members to their cooperatives in Mondragon (Heras, 2014).

Discussion and conclusion

Within a scenario of growing challenges in cooperatives to balance their economic and social dimension, the recent literature has paid special attention to the degenerative dynamics these organizations are experiencing in order to continue to be competitive and economically efficient in the globalization context (Heras, 2014; Cathcart, 2013). This article contributes in this direction, analyzing a dominant trend in globalization: multinationalization. Unlike previous studies (e.g. McMurtry and Reed, 2009; Luzarraga and Irizar, 2012), our research evidences how international expansion can set off competing institutional logics (Battilana and Dorado, 2010) between the *cooperative logic* and the *capitalist logic* and actually unleash a profound process of degeneration in WCs, whose roots lie in the adoption of capitalist organizational forms, where cooperative membership rights are restricted for workers (Cornforth et al., 1988). While cooperatives are expected to reproduce the cooperative organizational formula and worker-participation oriented practices in subsidiaries (Flecha and Ngai, 2014), the dual model 'parent cooperative-capitalist subsidiary' implies a radical transformation of cooperatives into 'coopitalist' hybrids, and demonstrates a clear break with their idiosyncratic democratic, social values and worker-centric policies.

Consequently, this study addresses recent appeals to research the existing tensions affecting cooperatives that consider transferring the cooperative model to their subsidiaries

(Bretos and Marcuello, 2016; Cheney et al., 2014). The few studies that have analyzed this question (Luzarraga, 2008; Flecha and Ngai, 2014) have reproduced the rhetoric and managerial discourse used by the Mondragon technostructure to extol the limited achievements registered in this area. In contrast, The evidence gathered from our analysis suggests a far more complex reality that stands in the way of the cooperativization of foreign subsidiaries, that is to say, the reproduction of the cooperative organizational formula and the transfer of its idiosyncratic worker-centric policies and employment practices. Faced with social and internal pressure for them to seek alternatives that permit extension of the cooperative model to foreign subsidiaries, the managerial technostructure of the parent companies instrumentalizes a variety of institutional barriers – such as legislative and cultural differences – as a ‘smokescreen’ to justify the non-cooperativization of these subsidiaries.

Behind this, our research reveals that the cross-national transfer of employment practices within MNCs is more critically linked with issues of power and interests ‘behind-the-scenes’, as some studies suggest (e.g. Ferner et al., 2005). In this regard, we contribute to the international business (IB) debate by addressing emerging research issues, determining what, for instance, constitute the actual interests of the actors in MNCs; who certain managerial strategies are effective for; who benefits from the implementation and transfer of more standardized policies and ‘best practices’ (Geppert and Dörrenbächer, 2014; Dörrenbächer and Geppert, 2011); and, in broader terms, how power and interests influence the cross-border transfer of practices within MNCs (Ferner et al., 2012). Worker cooperatives are internationalized in order to maintain their economic viability and protect the jobs of worker-members in domestic plants. To do that, they exert strong centralized control over foreign subsidiaries and retain strategic resources and activities of the greatest added value in the parent companies. That way, they can transfer the policies and practices that interest them, in a standardized manner, without resistance from the subsidiaries (Quintanilla et al., 2008). Multinational Mondragon cooperatives have established the same TQM system – alongside some HR practices based on the involvement and superficial participation of workers in the work area – in all the subsidiaries to attain the internal consistency that multinational groups need, and stimulate productivity and economic efficiency in the subsidiaries. It is, nevertheless, evident that, due to interests of their own, managers and worker-members do not want the parent companies to reproduce the organizational cooperative formula or encourage the genuine participation of the workers in the ownership, profit distribution, and management of the subsidiaries, because they regard that as a threat to their being able to stay in control, and risky for the viability of the parents and the job stability of their worker-members.

This article also suggests some more practical implications so that advances can be made in extending the cooperative model to foreign subsidiaries, a process that must be supported upon well-laid foundations that have previously been weighed up thoroughly. Firstly, it is essential that WCs abandon an ‘ethnocentric approach’ (Perlmutter, 1969) and move toward a ‘network model’ that enables the subsidiaries to make the transition from a position of subordination to one of equality, thereby endowing them with greater autonomy, decision-making power, and capacity to develop independent competencies (Birkinshaw and Hood, 1998). In this spirit, WCs must overcome the idea that the cooperative model in their country of origin is also the best choice for their foreign subsidiaries. In the world there exist different cultural approaches toward WCs, and different legislations for them (Cheney et al., 2014), which means that cooperativization projects in foreign subsidiaries should adapt to their own institutional contexts, and integrate within them the perspectives and opinions of the workers.

Another important aspect prior to cooperativization is the generation of social capital through the strengthening of social relations between parent company and subsidiary. As a range of works indicate, trust created by means of social capital in MNCs lubricates a readiness to share information and knowledge among workers in units that are geographically and culturally distant, which is crucial for the transfer of policies and practices (Taylor, 2007). In the parent cooperative, it can create a greater determination to transfer the cooperative model and its characteristic policies and practices. Equally, the subsidiary's trust in the parent can enormously facilitate acceptance and implementation of the policies and practices transferred (Kostova, 1999). Moreover, the transformation of a capitalist subsidiary into a cooperative can involve an extraordinarily drastic change for the workers in particular institutional contexts. So, the implementation of complex aspects such as workers' participation in management, worker-ownership, and democratic decision-making should, therefore, be preceded by education and training programs in cooperative values and practices at foreign subsidiaries. Otherwise the transfer could fail owing to a clash with the cognitive institutions in the receiving subsidiary's country, as the workers might have difficulties in correctly interpreting and appraising the practice (Ferner et al., 2005).

Lastly, implementation of the cooperative model and its idiosyncratic employment practices in foreign subsidiaries offers great potentialities, which could be explored by future research. As the recent literature suggests, HR practices such as employee ownership, participation in decision-making, profit-sharing, horizontal communication and information dissemination, extended training, job security and compressed wage distribution – which are inherent to the nature of WCs (Lertxundi, 2011) – shape a potentially 'ownership high performance work system', which is a more coherent and effective HRM system (Kaarsemaker and Poutsma, 2006). Furthermore, the aforementioned HR practices are not only positive for organizational performance, but also for the welfare of the workers (see the special issue of *Human Resource Management Journal*, 26(2), 2016). Moreover, the empirical evidence shows that WCs can be more productive (Fakhfakh et al., 2012) and longer lasting (Burdin, 2014) than capitalist firms. Consequently, in line with what regional economic development theory on MNCs suggests (Young et al., 1994), the cooperativization of subsidiaries could act as a lever to promote more stable economic development and improve work conditions and employment relations, especially in developing countries. Through such an orientation, multinational cooperatives could drive social, economic, and democratic improvements in the territories where they are located.