

Basque Mondragon Multinationals in the Middle Kingdom

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Abstract. In this paper we deal with the international expansion of Basque multinationals in China or *Zhōngguó* (literally "Middle Kingdom"). The analysis is focused on the Mondragon multinationals subsidiaries in Chinese Kunshan industrial park. We study, on the one hand, the relations between the headquarters and the subsidiaries, and on the other hand, the industrial relations in the subsidiaries.

Keywords: Mondragon cooperatives, multinationals, China.

1. Introduction

During the last two decades many cooperatives belonging to the Mondragon cooperative group have pursued a strategy of international growth that had transformed the original local cooperatives into multinationals groups with many affiliated companies all over the world. In this context, the paper examines the business, economic, social and cooperative implications of this strategy, focusing in the Chinese experience. The main issues are how long Mondragon multinationals will remain key creators of jobs and wealth in the Basque country and whether or not the cooperative democratic model will prevail among its subsidiaries.

Multinational companies and democracy seem to be antagonistic terms: multinational refers to the capacity for control by a centralised unit distant from the various units spread over a number of countries (hetero-management), while the concept of democracy refers to the direct control by those involved in the process (self-management), as it happens in the cooperatives. However, exploring and innovating different ways that exist to democratise companies, even multinationals, is a challenge which cannot be ignored by society nor by companies if they wish to continue producing goods and services in a way that is distinct from the traditional capitalist enterprises. Seeking productive multinational business models, ones as democratic as possible, is a challenge, above all for those democratic companies, as Mondragon cooperatives, that have had to become multinationals.

The methodology used in this case study is based on participative observation and the analysis of available information as well as interviews and meetings with managers, members, workers and other agents of the headquarters and its subsidiaries.

2. International Strategy of Mondragon multinationals in China

2.1. Mondragon Today

The Mondragon cooperative group, named officially Mondragon: Humanity at Work: Finance-Industry-Retail-Knowledge, has attracted the interest of many researchers, both in the field of economic democracy as well as in business in general. The experience launched in 1943 with the foundation of a Polytechnic School, has become a cooperative network of more 147 cooperatives, structured into four groups — industrial, financial, distribution and research & training — today employing almost 85,000 persons with a turnover of over 14,755 million Euros in 2010 (Mondragon, 2011). In the industrial area the percentage of international sales in 2010 amounted to 62.5%. It should be noted that of the 3.594 million Euros in international sales, 2.309 million (56.7%) corresponded to exports from the production plants in the Basque Country and the rest -1.555 million, 43.2% - corresponded to the production on in the foreign subsidiaries.

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The Mondragon group reflects the concern of combining the basic objectives of a business development in capitalist markets with the use of democratic methods in its organization, job creation, promotion of its workers in human and professional terms and commitment to the development of its social environment (Errasti, 2003). The development of this experience over the last decade, particularly on an international level, has thrown up questions regarding the viability of the Mondragon cooperative model and, consequently, of the cooperative model in general.

The Mondragon cooperatives have been constructing a wide network of subsidiaries all over the world, 93 subsidiaries and more than 13.000 workers in 2010, mainly in emerging nations (13 subsidiaries in China, 8 in Czech R., 7 in Mexico, 6 in Poland and Brazil, etc...). The strategy has involved acquisition of businesses and the constitution of private capital affiliated companies (Mondragon, 2011). This strategy has reinforced the competitive position of the companies but has produced contradictions between the basic objectives of a business organisation competing in international markets and the historical core principles and values of the Mondragon cooperatives (Errasti, 2003).

2.2. Mondragon Subsidiaries in China

During the last decades we are witnessing the rise of the People's Republic of China, with its potential market of 1.3 billion people. China has implemented a mixed economy system with hundreds special economic and technological development zones creating unbeatable conditions for attracting foreign investment and international outsourcing. China has managed to attract thousands of foreign multinationals, overcoming competition from other low and medium value-added product producing countries. Since the beginning of the century, China has received 75% of the foreign direct investment (FDI) targeted at developing countries, and its spectacular growth is causing price rises in steel, oil and other raw materials all over the world, and price decline in manufactured goods (Xiaouen, 2007).

In 2008 there were 92 Basque multinationals in China with 107 subsidiaries. Most of the subsidiaries are productive businesses (49%), followed by commercial subsidiaries (36%) and other services sector subsidiaries (15%). The 26% of these Basque multinationals have market reasons to invest, 16% costs reasons and 58% a combination of market, costs and other reasons as increasing the capacity of the supply chain, to be close to their habitual clients, to take advantage of economies of scale, to complete a product range, to have productive flexibility to face market changes or logistics. Anyway the reasons vary on time. At the beginning most companies are concerned with the access to cheaper production factors, while later the companies are increasingly more interested in introducing in the Chinese market (Azua et al., 2009).

Mondragon multinationals have 16 production plants and corporate offices in Beijing, Shanghai and Shenzhen. In this context we underline the Kunshan Mondragon Park, with 8 production plants. The projection of the group is to have more than 20 production plants and more than 3,000 jobs in China by 2013, with industry sales estimated 300 million euros (Mondragon, 2010).

The Mondragon companies located in Kunshan are: Agui Mechanical Appliances Co. Ltd (9 people), Orbea Kunshan Co. Ltd. (35), Oiarso Medical Kunshan Co. Ltd. (35), Orkli Kunshan Co. Ltd. (200), Wingroup Kunshan Co. Ltd. (unknown), Batz Kunshan Co. Ltd. (49), Orona representation office (4), Fagor Catering Kunshan Co. Ltd. (55), Fagor Metal Forming Machine Tool Co. Ltd. (48), Kedi Refrigeration Equipment Co. Ltd. (13), Gestamp (unknown), Caamañoasia (unknown). The near future members (expected to set up in the park) are: Grupo Ormazabal, Cikautxo and Fagor Ederlan. Some of the firms in the park belong to the Mondragon group and some are not part of Mondragon, but all are Basques. The park is spread in more than 500.000 sqm and LKS has been charged with the design of the plants, which have been built by Chinese firms (Mondragon, 2011; Urzelai, 2011).

Other subsidiaries in China include: Irizar Tianjin (250 people), a manufacturer of luxury coaches; Copreci China (85) in Zhuhai, dedicated to the production of components for household appliances; Dikar-Ningbo Wingroup (100), which produces tents; Fagor Automation (40), located in Beijing, where it manufactures numerical controls and display screens; Fagor Cookware in Shanghai (270), making pressure cookers; and Nantong Huarong (100), dedicated to the production of industrialised systems for construction, located in Dongchen (Mondragon, 2011; Urzelai, 2011).

2.3. Local Employment VS. External Employment: Expansion and Re-Location

Conventional multinational corporations do not feel responsible for the job destruction entailed in re-location, while Mondragon multinationals do have that responsibility. Mondragon managers must deal with a cooperative under the control of worker members and will therefore be reluctant to offshore cooperative production. On the one hand, Mondragon cannot close its Basque plants and move to places where production is cheaper; and on the other, the challenge of global competition poses great difficulties for maintaining the current number of local jobs (Errasti 2003).

International expansion started as a need to access new markets, but it is now threatening local employment. Over the last few years, Mondragon has made important investments and launched new activities in its Basque plants, but Mondragon may already have reached its peak with regard to local and cooperative employment, while the external non-member employment rate may retain its upward trend. Nowadays, the local workforce does not even account for 40% of the total, while cooperative (member) employment only accounts for 30% (Luzarraga, 2007).

This restructuring process will mainly affect blue-collar workers, with job creation still being possible to a lesser extent in corporate services such as research, design, administration and finance. New investments, where capital is increasingly more important, and re-location, will mainly affect temporary workers, whose possibilities of gaining a job, let alone becoming members, have been dramatically reduced, especially in the nowadays crisis context. In order to maintain the competitiveness of local jobs, workers will be under great pressure to increase productivity over costs, with salary reductions and harder working conditions (Mendizabal, 2007).

2.4. Mondragon Subsidiaries Organization Model

To assess the model and the results of the Mondragon multinationals subsidiaries in China from a cooperative perspective it's necessary to analyse the relations between the cooperatives headquarters and the affiliated companies and the industrial relations in the subsidiaries.

Regarding relations between head quarters and subsidiaries, usually joint ventures with local partners, – such as the locating of the decision-making centre and the degree of centralisation of that decision-making, or the make-up and origin of the management, the transference of technology, transfer pricing and tax policy –, we don't distinguish differentiated policies compared to other conventional multinationals. For example, the chief executives of the affiliated companies are expatriates appointed by the parent cooperative, the decision-taking process being strongly controlled and the R&D highly centralised. This is what Chakravarthy and Pelmutter refer to as *ethnocentric multinationals*, whose attitude towards foreign affiliates is rather like that of a mother country towards its colonies (Dunning, 2008).

It is necessary to underline the transfer of the Mondragon management model (horizontal, quite egalitarian and transparent, based on participation and teamwork, objectives driven with motivated and committed workforce...). The corporative business model is being extended to all the subsidiaries. In this sense, it's necessary to make a special mention to the implementation of many business standards of quality, security and environmental issues in the subsidiaries, following the parents company's model (EFQM, ISO9000, ISO14001...).

If we refer to the sphere of industrial relations of Mondragon foreign affiliated companies in China, it can be seen that the working conditions and labour relations of these affiliated companies depend not so much on the nature of the parent company, in this case of the cooperatives, but on the conditions extant in the area of China where each subsidiary is located. Two clear references are pointed out: on the one hand, the legal framework and, on the other, the conduct of other companies within the same sector, particularly multinationals.

The Kunshan industrial park based in subsidiaries cooperation shows that common location of subsidiaries belonging to different multinationals of Mondragon may allow greater economic and social developments. The concentration of subsidiaries, apart from the business advantages, enhances the margin of manoeuvre for advancing in differentiated organizational activities, mainly in human resource management area.

The expected synergies of the Kunshan Industrial park come, on the one hand, from the economies of scale and are related to the increased critical mass in negotiating with customers and supplier, and from the optimization and cost reduction of management costs. On the other hand, the expected synergies from economies scope are based in generating a common group image, in the exchange of know-how and best practices and sharing the professional support and staff for marketing, promotion and search of new customers in Asia. We underline the possibilities of developing differentiated human resource policies in recruitment, training, compensation, performance assessment and workers integration, more in tune with their parent's companies cooperative model.

These practices not only represent the advances that cooperatives are doing in these troubled waters, but also they illustrate the concern of the cooperatives to accomplish, as Mondragon mission states, a more democratic and responsible international business model. We hope that that's the beginning, and that Mondragon industrial cooperatives, as Vanek (2007) suggests, would make "infant" affiliate companies evolve through adolescence to maturity following their Parent Companies' pattern. In other words, evolve towards a new model of democratic multinational enterprise, or at least towards a less abusive multinational enterprise model.

3. Conclusions

The increased presence of multinational corporations impose a series of obligations on industrial companies, including the need to attain a size that allows them to operate globally and be located in the most favourable places from the point of view of costs and market proximity. During the last decade Mondragon has transformed from being a Basque Country-based production cooperatives, to a large multinational group with cooperative plants and multiple non-cooperative production subsidiaries in Eastern Europe, Latin America and especially in China.

Mondragon has seen the challenge of international expansion as a way of improving competitiveness for the preservation of the local and cooperative employment. Initial re-location operations conducted by Mondragon have had the same objective, although their result may be a loss of local jobs. This international productive repositioning policy goes hand in hand with an investment effort in local plants and a gradual transformation of low value-added jobs into higher value-added jobs. In spite of this, however, re-location has only just begun. Industrial cooperatives now wonder how to adapt themselves to the new situation without losing their identities, i.e. how to preserve companies that are deeply rooted in the community and based on a democratic business model. The strategic choice made by the industrial cooperative movement must aim at strengthening competitiveness based on new technology incorporation and on human and social capital development.

The analysis of Mondragon subsidiaries in China, especially in Kunshan industrial park, shows that there are opportunities of social and economic improvements in the international business and in the international human resource management. Anyway, the challenge for the Mondragon multinationals in China and all over the world is to generate formulae which facilitate both internal and external development in tune with the principles and values of the Mondragon cooperative experience.

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