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The challenges of managing across borders in worker cooperatives: Insights from the Mondragon cooperative group

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ABSTRACT

This article explores the challenges that worker cooperatives face when they operate and manage people across borders. Drawing on qualitative research on two Mondragon multinational co-ops based on longitudinal data and in-depth interviews, we address the dilemmas raised by the multinationalization of co-ops through the establishment of 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 co-ops to justify the non-cooperativization of foreign subsidiaries, lie factors stemming from headquarters-subsidiary power relations, as well as from core co-op owner-members looking to protect their own interests. Indeed, a clear dissociation has been found between the Mondragon corporate discourse about the promotion of participation and democracy overseas, and the real practices that are operational within the foreign subsidiaries. The article also draws some practical implications for multinational co-ops wishing to extend the cooperative model to their overseas subsidiaries.

1. Introduction

The latest cyclical crisis of the capitalist system and the growing debate around the hegemony of the investor-owned firm model have prompted renewed attention to worker cooperatives (WCs) as feasible alternative forms of organization in today's globalized economy (Parker, Cheney, Fournier, & Land, 2014). WCs are usually depicted as small-sized member-owned businesses that operate exclusively at the domestic level (Williamson, Imbroscio, & Alperovitz, 2003), and are regarded as the highest expression of workplace democracy since decisions are taken on a 'one member/one vote' basis (Thompson, 2015). However, as mounting empirical evidence demonstrates (e.g., Novkovic & Sena, 2007; McMurtry & Reed, 2009; Siebel, 2016), globalization pressures have pushed many co-ops to go global through the setting-up of subsidiaries, thus turning into multinational companies (MNCs). In this context, a burgeoning literature about multinational co-ops has emerged, chiefly focused on business issues such as the degree of internationalization (Bijman, Pyykkönen, & Ollila, 2014; Heyder, Makus, & Theuvsen, 2011), strategies followed to access foreign markets (Bijman et al., 2014; Pérez-Suárez & Espasandín-Bustelo, 2014; Elo et al., 2014; Pérez-Suárez, Sánchez-Torné, & Espasandín-Bustelo, 2017), enhanced economic performance and competitiveness (Amat & Perramon, 2011; Heyder et al., 2011), or organizational and commercial innovations achieved through global expansion and networking (Juliá, Meliá, & García-Martínez, 2012; Pérez-Suárez & Espasandín-Bustelo, 2014).

By contrast, as claimed by Kasmir (2016), the scholarly literature about multinational co-ops usually lacks a deep, critical account of the contradictions raised by internationalization and tends to neglect day-to-day organizational life and employment practices in foreign subsidiaries and to marginalize workers' experiences. This research is paramount bearing in mind that WCs are people-centered enterprises in which international expansion may entail unique challenges to stay faithful to their hallmark democratic values and worker-centric practices (Bretos & Marcuello, 2017). As noted by Flecha and Ngai (2014): 667), 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'. Indeed, several authors have called for exploration of the potential dilemmas involved in the multinationalization of WCs and the tensions surrounding reproduction of

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the cooperative model and its idiosyncratic practices in foreign subsidiaries (Bretos & Marcuello, 2017; Carruthers, Crowell, & Novkovic, 2009; Cheney, Santa Cruz, Peredo, & Nazareno, 2014).

In view of the above discussion, our research aims to shed light on the challenges that WCs face when they operate and manage people across national and cultural boundaries. Drawing on a qualitative study of two multinational co-ops belonging to the well-known Mondragon Cooperative Corporation (MCC), we examine the multinationalization process of these WCs, the dynamics of central control and subsidiary autonomy, and reproduction of the cooperative formula and transfer of its characteristic human resource (HR) practices to foreign subsidiaries. Our findings reveal that multinationalization can lead to the formation of a global labor hierarchy, in which the interests of the co-op members in the headquarters (HQ) prevail over those of an international workforce that is deprived of cooperative membership rights and benefits, and where key business decisions over the fate of overseas factories are centralized in the co-op HQ. What is more, we found evidence of a clear dissociation between the MCC managerial discourse about extension of participation and democracy overseas, on the one hand, and the real decisions and practices that are implemented within the foreign subsidiaries, on the other. In fact, our research illustrates how institutional constraints and issues of power and interests impede not only the conversion of foreign plants into WCs, but also promotion of substantial employee participation, wage solidarity, job security, and other HR practices associated with the cooperative model.

Following this introduction, the next section provides a brief review of the literature about internationalization and human resource management in MNCs. The third section details the research methodology. The fourth reports on the key empirical findings. The final section highlights the main conclusions of the research and draws some practical implications for WCs in the dissemination of cooperative values and practices in their subsidiaries.

2. Literature review

According to the mainstream literature, internationalization has become an indispensable strategy for firms to stay competitive in markets, especially in situations of economic crisis (Lee & Makhija, 2009). A variety of works have analyzed internationalization strategies pursued by firms, foregrounding offshoring among those of most importance and most frequent application (Contractor, Kumar, Kundu, & Pedersen, 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, various 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 host country (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 & Dörrenbächer, 2016).

Meanwhile, one key research line today lies in investigating the configurations and strategies of HRM in MNCs and their subsidiaries, an issue that has been addressed from different conceptual approaches and theoretical perspectives (Edwards, Colling, & Ferner, 2007). Three broad approaches can be distinguished, offering market-based, institutionalist, or political perspectives. The market-based focus is that firms confront strong competitive pressures from product, financial, and labor markets and, to maintain or obtain international competitive advantages, they seek innovative 'best practices' that they then try to share or enforce in their international subsidiaries (Taylor, Beechler, & Napier, 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 & Grugulis, 2000).

The second approach focuses on the influence of institutions in the transfer of practices within MNCs. Among other variants, such as the 'culturalist' perspective, several authors have based their work on the neo-institutionalist theory (Scott, 1995) to analyze transfer in MNCs. 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, Susaeta, & Sanchez-Mangas, 2008: 681). In contrast, a greater institutional distance will involve a greater 'host-country effect', in that the subsidiary's labor practices will be shaped by local isomorphic pulls and more influenced by the host country (Almond, Edwards, & Colling, 2005). Purely neo-institutionalist approaches have been criticized since they neglect 'questions about power, coalitions, interests, and competing value systems' (Ferner, Edwards, & Tempel, 2012: 164).

Lastly, the micro-political perspective places emphasis on how actors use different resources and mechanisms to protect or further their own interests (Edwards et al., 2007). This view consequently holds that transfer of organizational 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 local embeddedness, they will be able to resist or negotiate the transfer from the HQ (Ferner, Almond, & Colling, 2005). Additionally, the HQ also has mechanisms to exert control over subsidiaries and transfer practices in a standardized fashion, neutralizing their possible resistance, as well as to overcome institutional hurdles within the host country (Ferner, Almond, & Clark, 2004). This intertwines with the possibility of different actors in the MNC having conflicting interests regarding the transfer of a particular practice. Accordingly, the MNC has been conceptualized as a 'contested terrain' (Edwards & Bélanger, 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 and of the influence of organizational groups' self-interests in MNCs (Geppert & Dörrenbächer, 2014) should be developed further, particularly where the cross-national diffusion of employment practices is concerned (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. 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 (Azkarraga, Cheney, & Udaondo, 2012; Heras, 2014), MCC 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 & Irizar, 2012). In contrast, a few studies go deeper into the analysis of the employment relations in Mondragon's foreign subsidiaries, concluding that there is not a trace of the Basque parent companies' cooperative model to be found in them (e.g., Errasti, 2015; Errasti, Bretos, & Etxezarreta, 2016). However, these studies are silent as to why the mother organizations cannot, or do not wish to, reproduce the cooperative model in capitalist subsidiaries. Meanwhile, some scholars have examined the successful conversion of domestic subsidiaries into cooperatives within MCC's area of operations (Bretos & Errasti, 2016, 2017; Burgués, 2014), but provide no further elucidation as to why all the Group's foreign subsidiaries still continue to be non-cooperative firms. Lastly, some studies have analyzed the