<u>Conference:</u> **Managing in a Global Economy**
<u>Theme:</u> **Managing in Multicultural Environments**

Mondragon/ Eroski: Global Power Catering to Local Needs

[Footnote: The name Eroski is a combination of the Basque words "Erosi"[to buy] and "Toky" [place] which can be translated as "buying place".

In 2017, Mondragon had production subsidiaries and corporate offices in 41 countries and sales in more than 150 (See Figure 1). Mondragon has long demonstrated remarkable adaptability to changes in its environment and has been economically successful for more than a half-century. While Mondragon includes many small to medium size cooperatives, the combined size and large scope of its overall activities enable it to offer a credible alternative to a traditional capitalism model that has increasingly showing its limits. An alternative business model -- employee-owned, employee-empowered, employee-governed -- underlies Mondragon's culture. In combination, the three appeared to be Mondragon's key strength,

The extant literature on Mondragon is extensive (e.g. Casadesus-Masanell & Khanna, 2002; Macleod, 2009; Whyte & Whyte, 1988) The group has been the subject of many studies focused on its history, culture and evolving structure. However, this entity has demonstrated a distinctive strength and competitiveness that is not easily explained with traditional organizational theory and logic. Like other complex organizations, such as Toyota or Google, a static analysis of the organization chart, structure and decision-making bodies does not reveal what makes the organization so efficient in what it does. Mondragon's successful operation for more than five decades in various industries that span a broad range of activities and products from producing low-tech consumer goods to retailing to design and manufacturing of high tech machineries, has been supported by a combination of various intangibles elements [decision making process, relationships within and outside the network…etc.] that allow the flow of information and facilitates project implementation within the structure of the organization. It is these intangible elements that partly explain how a group of coops of this size has survived and prospered throughout the globalization process of the early 90's and beyond. Much of the key to the sustainable success enjoyed at Mondragon can be credited to the unique organizational and managerial approaches that enable it to have the flexibility and dynamism of a small enterprise, combined with the strength and synergies present in much larger organizations. At Mondragon, **most everything of value and significance is internally shared** (Roche, Freundlich, Shipper, & Manz, 2018) by the coop members/owners [e.g. decision-making, governance, resources, leadership opportunities, knowledge and entrepreneurship, and rewards]. In the present article, we explore a new facet of this unique managerial approach and how it impacts Mondragon relationships with three of its most important **external stakeholders** [i.e. suppliers, franchisees and customers]. To do this, we selected Eroski, Mondragon's cooperative operating in the retail sector. While Eroski is one of the largest coops of the group, it is dwarfed by the size of large multinational competitors such as Carrefour and/or Walmart which operate in the same sector. In addition, Spain is a mosaic of regions with different cultures and local communities with diverse needs. To address these challenges, Eroski has developed a successful business model that is based on mutually beneficial relationships with its suppliers and its diverse customer base. The specific details we provide is this article are largely based on interviews with the President of Eroski [Mr. Agustin Markaide: AM]

Mondragon: A Brief Background

Mondragon was created from humble beginnings based on the efforts of five engineers who in 1955 acquired a license to build electrical and mechanical products for home use and created "Ulgor," an employee-owned cooperative. Subsequently, acquaintances of the founders began to set up new cooperative enterprises in the area, and they soon became loosely affiliated with each other to form the group of Mondragon. One central feature of Mondragon is the "network" or "cloud." Mondragon is not a conglomerate in the traditional sense, but rather an integrated cloud of a very large number of cooperative firms. The network idea was triggered by the first generation of leaders taking the cooperative idea and applying it not only inside the business, but also among businesses. They felt that their dramatically new approach to enterprise was probably not going to be well understood by conventional companies operating in finance, insurance, and research sectors, so they decided to create their own affiliated entities. They also believed that it would be difficult for what were then small firms to prosper on their own over time. They would not only need these key services, but also realized that if they joined forces, they would be better able to find the support they needed during downturns as well as synergies and joint opportunities during upturns. The group started with a cooperative bank in 1959, and then added a social security and insurance cooperative, followed by a supermarket chain, technology R&D cooperatives, joint training institutions and regional subgroups. At the same time, several dozen other employee-owned, manufacturing cooperatives producing a wide range of products such as machine tools, automotive components, and industrial equipment began operation as part of Mondragon. What started in the mid 50's, with a handful of workers making simple paraffin cookers and heaters is now an umbrella structure that employs over 80,000 people worldwide. As of 2017, it had global sales of approximately US$14 billion. Today, the Group Mondragon includes approximately 260 organizations covering over 20 industrial sectors. They are integrated in what might be termed an "amorphous network" structure (Roche, Freundlich, Shipper, & Manz, 2018). Over time, at the periphery of the network, a few co-ops drop out while a few more join in. Inter-cooperative alliances for specific projects such as investment in specific countries or the need to address the global interests of a specific client/customer will change the shape of the network as well.

The network is "permanent," but its shape changes all the time depending on the changes in the environments, the needs of clients/customers as well as the needs of the group's members. At the center of the network, four sub-networks are instrumental for the adaptation/evolution of the organization. These constitute the core structure that allows Mondragon to adapt and survive while keeping its co-op values: a) The **Education** network which includes Mondragon University and several training and entrepreneurship centers; b) The **Research** Centers and the Mondragon Patent Offices; c) Laboral Kutxa (**Finance**) and d) Lagun Aro, the **Social Security** entity. These four sub-networks have allowed Mondragon both to maintain cohesion and to adapt over a long period of time while other co-ops failed. A larger network of co-ops, which produce goods or provide services, gravitates around these four core elements. The super structure of Mondragon interfacing with the senior management of each co-op proposes strategic changes and facilitates the C2C (co-op to co-op) synergies within the network.

Over time, Mondragon has evolved into an organization that is in "a league of its own." There is no other equivalent co-op structure of its size that has survived the globalization process. Through the shared participation of its various members and co-ops Mondragon has demonstrated a sustained ability to adjust to challenges that are very specific to each industry it operates in and to compete, survive and thrive in a global marketplace. In the following sections, primary areas of sharing at Mondragon/Eroski will be addressed in more detail including decision-making, resources, shared values and interactions with other retailers, suppliers and customers.

A challenge for Mondragon in its strategic analysis has been to adopt the coop model to a multicultural and global economy. There are practical limits to participatory democracy and the one-worker, one-vote rule. Mondragon has avoided problems associated with large structures (e.g., lack of communication, layers of management, bureaucracy and feelings of not belonging to the group) by adopting what might be called a "small is beautiful" doctrine. This has resulted in spinning off parts of existing firms to create new ones, or starting a new coop, rather than building giant enterprises. Such an approach seeks to avoid the eventual disappearance of the organization as employee-owned. This has necessitated different philosophical models of organizational governance and work practices as reflected in its corporate governance and its HR philosophy. These models are explained, followed by a description of how these philosophical beliefs influenced Mondragon/Eroski to not expand overseas.

Shared Governance

In this section, the term "organization governance" refers to the structures and processes that regulate the interactions among a) the senior management team, b) the owners of the organization and c) the board of directors [or its equivalent] as well as the results of these interactions on the organization's social and financial performance. In general, the field of "corporate governance" has been concerned with these three sets of participants and their related specific issues.

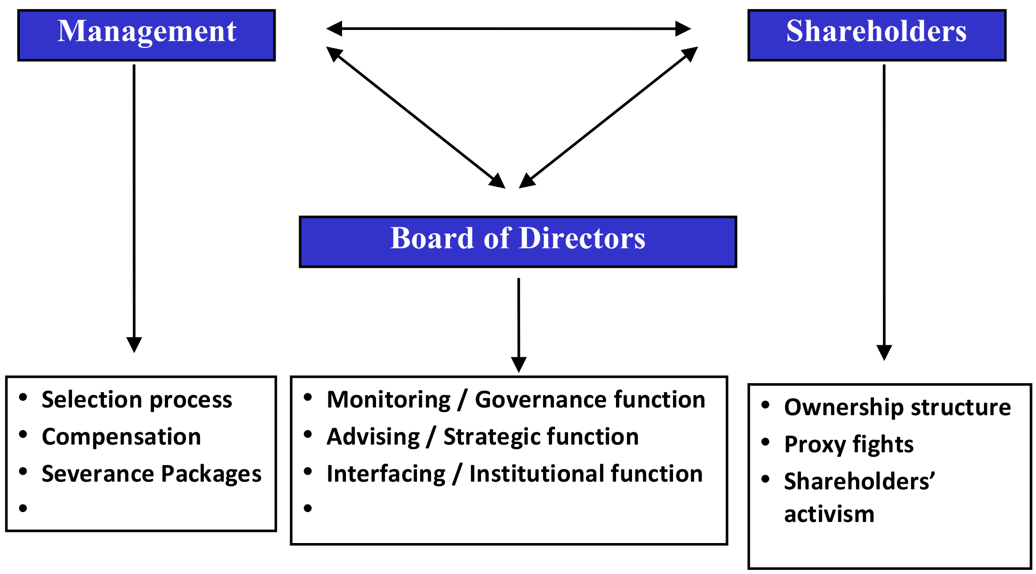

Figure 1. ISSUES COVERED BY ACADEMIC RESEARCH IN THE CORPORATE GOVERNANCE ARENA

Source: Roche, O. P. 2009. Corporate governance and organization life cycle: The Changing Role and Composition of the Board of Directors. Amherst, NY: Cambria Press.

For instance, with regard to the senior management team there is an extensive literature on its selection, compensation, severance packages, and CEO succession plans (Finkelstein and Hambrick, 1989; Zajac, 1990). For the owners/shareholders (Tkac, 2006; Becht, M., et al, 2007; Romano, 2001) the extant research has focused on proxy fights, shareholders' activism, as well as ownership structures (Denis, Denis, and Sarin, 1999). Finally, with regard to the board, there are ample discussions on its composition and role with a clear emphasis on its three main functions: monitoring, advising the management as well as interfacing with external stakeholders [e.g. secure resources for organizations at early stage of their development].

For the basic corporate model, there are many well-established theories seeking to explain [or that support] these basic functions, such as agency theory (Denis, Denis, and Sarin, 1999), resource dependence theory (Berle and Means, 1932), and stakeholder theory (Pfeffer and Salancik, 1978), among others. However, we agree with more recent authors who suggest that the use of multiple theories for examining the complexities of corporate governance is more advantageous (Freeman, 2010). Indeed, the study of the extant literature shows that, even if one limits the scope of his/her observations to the basic for-profit corporations, the complexity and diversity of governance issues are extensive. For example, governance structures and board functions are impacted by the characteristics of the organization's industry, the organization's stage of development, its ownership structure, and so on (Confort, 2002; Lynall, Golden, and Hillman, 2003; Roche, O.P., 2009). In that regard, the present analysis focuses on an atypical organization [Eroski] having multiple stakeholders and this add to the complexity, as stakeholders tend to have a broader range of objectives compared to shareholders [who tend to focus more on maximizing shares' value].

In terms of its objectives, corporate governance is concerned with ensuring that the goals of the organization are achieved in a manner consistent with the desires of the owners or members of the organization. A review of the work on corporate governance suggests that most organizational governance systems seek to balance the interests and responsibilities of shareholders, the board, and management. A useful lens for examining corporate governance is agency theory. In their pioneering work *The Modern Corporation and Private Property*, Berle and

Means observed that the separation between corporate ownership and control resulted in the delegation of management control to a small group of managers within the company. The result being that the shareholders or owners of capital lost not only their management functions, but also most of their rights to exercise control or to modify the terms of the initial delegation of authority. In this model managers serve as agents of the owners of the firm, and the role of the board is to interface between management and the shareholders to ensure that the latter's wishes are carried out.

Hence, the traditional corporate model sees the governance role as a mechanism to ensure that the firm is run primarily for the benefit of the owners or investors (Berle and Means, 1932). At the other end of the spectrum, one can examine collaborative forms of organizations (e.g., cooperatives such as Eroski) (Hunger and Wheelen, 2011) in which governance seeks to mediate between the needs of organizational members and management. Some of the key characteristics in the governance processes of the traditional public corporation and the collaborative form of organization are displayed in table 1.

Table 1: Range of governance models

	Corporate	**Collaborative**
Nature of decision-making process	Top down	Top down/bottom up
Selection criteria	Board members selected for expertise/independence. Emphasis is on aligning the interests of the manager with the interests of investors.	Board representatives selected for expertise and representativeness. Emphasis is on the sharing of the organization values.
Interest represented	Investors/owners	Co-op members/owners
Board role	Emphasis on the monitoring function and interface with key external stakeholders.	Emphasis on the advising function and interface with key internal stakeholders.

Source: Compiled from: J. D. Hunger and T. L. Wheelen. Essentials of strategic management, 5th ed. (New York: Pearson, 2011); and D. McDonnell, E. Macknight, and H. Donnelly. Democratic enterprise: Ethical business for the 21st century (UK: Cooperative Educational Trust, 2012).

In table 1, one can view these two models of governance as a continuum describing the range of governance systems. While most of the characteristics described in the table are self-explanatory, a couple of points are worth noting. The traditional corporate model is hierarchical, wherein the board as a group of experts and experienced professionals oversees management to ensure they are running the organization to maximize returns to investors. At the other end of the spectrum, the essence of the collaborative form of governance is an adherence to democratic principles, wherein the board is selected to be representative of those whom they stand for. The co-op is to be governed in the interest of its members, and the board works collectively with management to see that member goals are fulfilled.

These differences have important implications with regard to the functions of the board. By far the most prevalent function of the corporate form of governance is the monitoring role as described by Berle and Means and others who followed (Berle and Means, 1932; Eisenhart, 1989). Indeed, there has been renewed interest in the board's monitoring role in the wake of the recessions of the early 2000s and 2008 and the occurrence of major scandals such as Enron, Tyco, AIG, Countrywide, and Parmalat. A common thread through many of these scandals has been the perceived failure of the board to fulfill its fiduciary duty with regard to its control and supervision obligation. This has been the subject of the regulatory reforms in later years (Feingold, D., Benson, G.S., and Hecht, D., 2007)

On the other hand, the collective decision-making process usually prevalent in coops such as Eroski has had profound implications regarding strategy implementation for the organizations. Even though employees may not own a substantial number of shares of the organization, they do actually feel ownership in the decisions that are made in the best interest of the organization. Information is better shared with the senior management team. Therefore, there is less opportunity for the senior management team to behave contrary to the best interests of the organization and its legitimate owners. This, in turn, has important consequences with regard to the role of the board. The board of directors [or its equivalent] can afford to spend less time monitoring top management and more time discussing and probing the strategy proposed by top managers. Therefore, less monitoring and more advising from the board seem to be an important outcome among organization with a more collaborative approach.

Finally, the governance experience in coops also has implications concerning the composition of the board. Most of these organizations tend to promote their senior managers from within the company. Their tenure also seems to be longer than in the corporate world. In addition, a few of these organizations have employees or middle managers who are also board members. Thus, in terms of access to information, there is less “asymmetry” between the senior management team and the board. Information asymmetry between the senior management team and the board of directors, which meets only a few times a year, has been a recurrent problem in the corporate world (Eisenhardt, 1989; Roche, O.P., 2009). In the case of coops, there appears to be less risk of information asymmetry but, on the other hand, the risk of “group think” increases. This would imply a greater need for the appointment of more outsiders possessing different backgrounds to the boards of coops.

Human Resource Management

Mondragon has adopted diverse HR practices to support its corporate governance structure and its participatory democracy and employee-ownership foundation. Shared capitalism, as reflected in its employee ownership, results in a sharing of financial rewards. By linking performance to rewards, employees are motivated and have organizational commitment, which is seen in employee-owned organizations as well as in traditional corporations. As research shown (DiBlasi, Freeman, and Kruse, 2016), companies rated amongst the “100 Best Companies to Work For in America” are much more likely than other firms to have ESOPs. These firms also have supportive cultures for other elements of shared capitalism, such as workplace policies that provide workers the means to make a difference in the workplace.

The shared capitalism philosophy has also resulted in other positive organizational outcomes that reinforce a culture of equality and ownership. For instance, an issue that has become both a current political and social concern is "income inequality, or the widening gap between executive pay and worker pay. The structure of the coop, however, means that executives and managers earn less than their counterparts in private industry, and that the wage gap with average workers is much smaller. Mondragon initially established a maximum ration of 3:1 of executive to worker pay, though over time that ratio has somewhat widened, but does not even closely approximate the ratio in the private sector.

A further unintended, but positive consequence, of the shared capitalism model is greater gender pay equity. The Mondragon pay philosophy actually helps to address the gender pay inequality issue (although it does not address the issue of the paucity of women in senior management positions). Since women are more likely to work at lower levels, their pay under shared capitalism will be more "fair," because they would receive higher wages in relationship to more senior employees in the coop than they would in a private firm. Such a formula means that workers at the bottom earn more, and executives at the top earn less, than their counterparts in private industry.

A further key benefit that is part of the social contract between a member and the coop is job security. In instances where a coop must downsize during a downturn in the economic cycle or is going out of business, the coop will attempt to place redundant workers in another coop.

Taken together, such practices exist in a culture that is supportive of high organizational performance. The success of this model should be seen as a reflection of the effectiveness of a culture of shared capitalism. As research has shown (Kaarsemaker and Poutsma, 2006), the consequences of employee ownership are reflected in positive Human Resource Management outcomes such as greater employee satisfaction, higher motivation, and stronger organizational commitment.

Shared Decision-Making: Eroski's decision not to expand overseas

The organization's "network structure" is intimately associated with a very special decision-making process. One cannot be analyzed or even function without an understanding of the other. At Mondragon, authority and the end-results of the business activities of the group (i.e. value creation and cash generated) rest largely in the hands of the first-level employees. In contrast, in more traditional businesses, the authority is concentrated with executives while the business activities that generate the cash rests largely in the hands of the first-level employees. Mondragon's highly involving and empowering approach is a primary characteristic of the enterprise, and widespread *sharing* provides an overall integrating theme. Perhaps the metaphor of the "School of Fish" strategy is an effective way to convey how the overall approach works – that is, the collaboration mechanism that can be observed in nature among many small fish species who share their fate, commitment and capacities with the school to secure food and defend themselves against larger predators. At Mondragon, smaller parts are coordinated to create some characteristics of a larger entity able to compete worldwide against other large corporations. At the same time the component parts actually "remain small" to address each co-op's specific needs and to retain the co-op fundamental values of involving individual workers in the destiny of their organization.

The decision-making process is relatively straightforward. Decisions are made at the co-op level and, on important issues, they do require a substantial consensus among the workers of that co-op. This basic process would have been good enough if Mondragon was a single co-op selling basic goods. However, with a network of over 260 co-ops, Mondragon had to develop a flexible decision-making process that allows the network to deal with complex issues and complex industries/products in a variety of environments.

Table 2: *Mondragon Decision Making Process*

	Top Down/Bottom Up
Proposal for Changes	Can be initiated by any qualified members at any co-op or members at the headquarters.
Approval for Changes	Only need to be discussed and voted by the members of the co-op sponsoring the change if its impact is limited to the sponsoring entity. • Otherwise if: -Multiple co-ops are impacted by the decision and/or -Mondragon and other co-op are required to finance part of the project and/or -Multiple co-ops are involved in a joint project to serve the same client/customer. • Then: -The members of all the co-ops involved must approve the decision to proceed.

The **proposal for changes** could be initiated at any level of the organization. It is a top-down/bottom-up process observed in many employee-owned organizations. For instance, it could be initiated from the bottom, with an employee or a group of employees having an idea for a new product or an improvement to an existing process. Proposals for change could also come from the top. For instance, strategic/organizational changes occurred following the entry of Spain into the European Union. In each case, the person or group or persons making the proposal was perceived as the most qualified to make that proposal. Indeed, the senior management of individual co-ops often welcomed suggestions on strategic moves requiring vision from Mondragon at the senior corporate level.

Agustin Markaide, President of Eroski, [AM]: "Each cooperative understands that Mondragon senior management team or the head of the division should propose changes and lead the process. Especially at this time, managers at the co-op level are saying, 'Since you have a better *understanding of the global/local economic context and the long-term trends, why don't you make proposals? We will decide whether we accept it or not, but you have the responsibility of leading this group.' The Executive President of Mondragon [The President of the General Council] has the responsibility to make proposals on the basis of the analysis of the situation, proposing more internationalization, more innovation, and/or the creation or not of delegations in specific countries. And as a last resort, the cooperative may not approve them because they are the ones who provide the funding, they are the ones who have to coordinate their actions with others, but they long to have that possibility of saying "yes" or "no" to a proposal."*

The **approval for changes** follows a different route. In principle, decisions are made at the co-op level. In reality, however, the number of persons/committees involved and level at which the decisions are made depend on **the type of decision**: is it a decision not to invest or a decision to invest, to proceed or not to proceed? What is the amount of the investment being made? And what is the number of financing mechanisms involved, e.g., own cash flow/money from Laboral Kutxa /financial arrangements with other financial institutions? Is it a single co-op involved or a group of co-ops? Are multiple co-ops impacted by a given decision because they shared the same client? Are there any potential synergies to be achieved by co-ops working together? While there is an overlap, it is the separation between "proposal" and "approval" as well as the flexibility of the decision-making process that allows the "Mondragon school-of-fish" to quickly adjust to threats or take advantage of an opportunity. This allows Mondragon to move as a group and to steer its multiple components in essentially the same direction.

The major strategic decision made by Eroski not to expand outside Spain illustrates the pluses and minuses of the process.

AM: "Every four years we update our strategic plan and the overseas expansion issue has been a part of the discussion for quite a number of years. Yet, to the same question, we always ended our discussion with the same answer. With regard to the decision-making process, the proposal to expand internationally or not was prepared by the Board of Directors, which is in charge of providing options on a given issue. It is then submitted to the Management Council[1]*. The Management Council is the one that has to validate that proposal. If instead of saying "no" to*

[1] "Consejo de Dirección" is the term in Spanish. It is roughly equivalent to an Executive Committee.

the internationalization we had said 'yes,' then most probably the decision wouldn't have ended at the Management Council level, it would have ended at the Assembly [of the group Mondragon], because it's a more cross-cutting issue involving financial resources, partnerships and alliances to open a network of businesses in Portugal, than saying that we would not do it. As until now the decision has been that we would not do it. Therefore, the Management Council has closed this issue and has informed the Assembly through the proper communication channels."

Given the multiple levels of the decision-making process, it is a lengthy process that assumes a high level of communication among the parties involved; particularly when it is a decision to proceed with a large investment involving multiple co-ops. However, the group Mondragon has strict schedules and deadlines for this process and its members as well as the management team believe that a wider participation results in people more willing to push forward in the same direction when it is time to implement the decision.

Shared Resources & Impact on Eroski Strategy

Depending on its size, a co-op such as Eroski has a few options to finance a project or a given strategy. If a co-op has the ability to finance a project through its own cash flow or cash reserves, then the management team can make that decision without asking anyone else. On the other hand, if a project is too large to be financed internally, a co-op can ask to have access to Mondragon *Inversiones [Investments]*, the "venture capital or business development fund" of Mondragon. Mondragon *Inversiones* provided equity financing to co-ops in need of cash to invest in large capital goods or to invest overseas. For investment overseas, the group has used in the past a 60/40 ratio (60% co-op /40% Mondragon). This fund is financed by investment contributions to the group made by each member co-op and the General and Industrial Councils control the utilization of this fund with the assistance of investment experts. Other options include lines of credit from Laboral Kutxa, the cooperative bank of the group, as well as financing from any number of private, public and semipublic entities such as the Center for Industrial Technological Development[2].

When an investment made by an individual co-op ends up being a poor one and it triggers losses, then the co-op assumes the consequences and pays for its own mistakes. This usually leads to a reduction in members' overall compensation or even a loss of some portion or all of the members' initial investment in the co-op. Then, during the annual General Assembly, the management could receive a vote of no confidence by the membership. This may result in the resignation of the CEO or the whole senior management team and, on rare occasions, of the Board of Directors itself.

Mondragon is not a holding company and the group does not consolidate its results. Each cooperative is an independent legal entity. The premise is that since each co-op is responsible for its own business model and its own governance, it also has to be responsible for its own financing. The "social capital" of each co-op comes from the initial monetary contribution made by each employee when s/he becomes a member. From that point on, the social capital increased when the co-op makes profits[3]; or decreases in case of losses. To this basic structure based on individual responsibility, solidarity mechanisms were added. When a co-op is having financial difficulties, it first has to take serious measures involving its members' own resources, i.e., reduction of the "monthly advance on consumption" (salary) of its members or reducing their social capital, as well as in its operations and strategy. Once it has taken measures, then solidarity mechanisms are triggered at the division level. At this higher level (four to five co-ops operating in the same sector

[2] The Center for Industrial Technological Development (El Centro para el Desarrollo Tecnológico Industrial/CDTI) is a public enterprise under the Ministry of Economy and Competitiveness which promotes the innovation and technological development of Spanish companies.

[3] After tax profits in Mondragon co-ops are distributed to favor investment, roughly as follows: 45% to internal reserves, 45% to employee-members and 10% to non-profit organizations. Even the 45% distributed to members, however, favors investment, as it generally cannot be taken out in cash each year. Rather, profits shares accumulate in individuals' "internal capital accounts" and are paid out to members when they leave the company.

of activities), profitable co-ops could give part of their after-tax profits or cash reserves to a co-op in the division that is in difficulty. A similar mechanism could be triggered also when there is a lack of liquidity in the system. A co-op could transfer its excess of liquidity to another co-op. The contract between the two parties is administered by the finance department of Mondragon at its headquarters. Mondragon acts as a guarantor in case the co-op in difficulty could not repay loans and/or cash advances.

While internal sources of finance remain one of the group strengths, the ability to raise external sources of financing remains challenging. The Mondragon headquarters is a cost center and each co-op is a distinct and autonomous legal entity. Lending to the headquarters of Mondragon, with no revenue, which in turn could and often does invest in multiple co-ops, presents a challenge to lenders in terms of risk assessment. At the co-op level, the legal structure does not facilitate lending either. Lending to a co-op presents its own challenge due to the solidarity mechanisms in place among co-ops of the same division and between a co-op and the Mondragon group. The last option is to find private partners. However, based on past experience, this is not an option without downsides. Private investors are usually “impatient partners.” They tend to have aggressive objectives regarding growth and rates of return for their investments. For instance, co-ops such as Eroski are not profit “maximizers” and while growth may be an objective, the growth rate targets are typically not as ambitious as traditional companies.

The rationale for Eroski not to expand abroad illustrates the limits of the coop model, even for a large co-op group such as Mondragon. As the globalization process unfolded, international competitors became larger and more powerful and investments [to remain competitive or take advantage of opportunities] became larger. In this changing landscape, Mondragon faces large capital expenditures while it does not have the option to raise capital by issuing stocks and its borrowing capacity is limited.

AM: "We decided not to proceed with an international expansion. The international markets, where we could sell our products through a network of outlets, are already flooded with supermarkets and hypermarkets operating under well-known brands. To be able to survive and expand in such markets would require an enormous initial investment. Besides, in this business, it takes a long time to reach the breakeven point when an organization does not have the first mover advantage. We do not have the financial resources to make such a large investment and to support the long-term commitment that such expansion would imply. A third issue is that our management model is difficult to 'implant' in a massive way in other places. In fact, we have been working on it for 20 years at the Eroski Group, and the 'cooperativization' process is ongoing and not completed. Our business model would take some time to be 'implanted' and it is not just ideological, it's a strategic business model. We want to manage the stores in a different way compared to our competitors in the sector because we're a cooperative. There is an advantage being the way we are, but that advantage is not 'active' from the very first day. It becomes 'active' once you have established the functioning rules and that requires some time, and you need strong financial support to be able to hold on during that time. For all these reasons, we have decided that we would not expand, not even in our closest foreign market (Portugal) where we have had several proposals to incorporate and expand our business there. This market is quite big, but there are other firms that have already large market shares and you can't just go in with one store, then a second one, and then a third to be able to compete with firms that are already well established."

Depending on the industry and the products, this limited access to financial resources has had a substantial impact on the Mondragon group strategies in different market segments. This has obliged the co-ops to strengthen their relationships and collaboration at every level [research, meeting clients' needs, capital expenditures…etc.]. For more sophisticated and technical products, it has also obliged the group and its affiliates to pursue niche strategies and or collaboration with competitors. This limited access to financial resources also has a substantial impact on the alternatives available to co-op during economic downturn. For instance, until 2008, the main strategy of Eroski was to dedicate most of its resources, human and financial to growing the business, to open new supermarkets and new hypermarkets. The management team knew that the market was soon going to be saturated with supermarkets and hypermarkets from other competitors and that they could not afford to stay behind. As mentioned earlier, when a competitor opens a supermarket it has the "first mover" [first-to-market] advantage and this is important in this industry. Therefore, Eroski was in a race to "occupy space" in other regions of Spain. However, the 2008 crisis brought the organization expansion strategy to a screeching halt. The sales/square feet ratio, which is a very important benchmark in retail food, decreased substantially over a short period of time. In the following years, Eroski management team had to turn the ship around, but it was not an easy task. When the growth stops, a long-term strategy does not stop from one day to another. When a company is building a shopping center, construction starts many years before the "grand opening." Therefore, there is a time lag between the decision not to invest any more money in growing a shopping center network and the moment when one can actually stop pouring money into a development project of this magnitude. Because of this time lag and the poor market conditions, Eroski had to renegotiate various financial arrangements with its lenders. Moving forward, Eroski has adopted a two-pronged strategy. First, the company is focusing more on the development of its supermarkets (at the expense of the hypermarkets[4]). Second, they have adopted a distribution and products differentiation strategy more suited to a saturated market during a prolonged downturn of the economic cycle.

Shared Purchasing Power with Other Retailers: Eroski as a Global Player

In the retail industry, being a global organization is an important competitive advantage when it comes to negotiate terms and conditions with suppliers. In that regard, the case of Walmart and Costco are well documented (e.g., Govindarajan & Gupta, 1999). In price sensitive industries, the ability to minimize cost and reduce working capital requirements provide a substantial advantage against existing competitors and new entrants. It is particularly so in an industry where

[4] Supermarkets are grocery stores that also provide some household items, while hypermarkets are larger, a combination of grocery stores, and discount department stores. Supermarkets, whose revenues come mainly from the sale of food products, tend to be less sensitive to the downturn of the business cycle.

suppliers such as Coca Cola, Unilever, Nestlé, and Danone have a strong bargaining power. Global competitors operating in the European markets like Carrefour have the capacity to obtain very attractive purchase conditions. In turn, they are able to sell at prices that Eroski would not be able to match. Although Eroski is one of the largest distributors in Spain and the third client to these key suppliers in terms of importance, the co-op would still be unable to match the larger players' bargaining power. That critical weakness is resolved through alliances with other organizations that have the same needs as Eroski has. In this case, the co-op is allied with Intermarche in France, with Edeka in Germany, and with Co-op Italia in Italy. Together, they have established purchasing headquarters that allowed each organization to obtain the same conditions as Carrefour. In fact, these four partners have the same sales volume that Carrefour has in Europe. In addition, Eroski senior management team is exploring other areas of collaborations.

AM: "We are also looking to achieve other economies of scales such as online purchase. In the future, we will all be involved in that evolution whether we want it or not. Finally, with our partners Intermarche and Edeka, we organize visits to one another, we teach the others what we have learned so that each one of us can acquire that knowledge and apply it to its own market."

Shared benefits with local suppliers

With major suppliers, a level playing field has been achieved through strategic alliances. However, for fresh produce or popular items in a specific region, Eroski deals with a large number of smaller suppliers. At that level, the relationship building process is different.

AM: "The fact that we are a cooperative doesn't make us so-called 'Sisters of Charity' when we negotiate. In the relationship between distributor-provider there is always a moment for the negotiation where you have to say, − 'Well, what about the price? Which is your share and which one is mine?' But, while that confrontation exists in almost the entire relationship when one negotiates with our large suppliers, at Eroski we believe that there are many areas of mutual benefits, such as promotion and development of new products.

Indeed, these components of the transaction are also considered. For instance, in its drive to find healthier products as well as products that are more respectful to the environment, Eroski regularly meets its key suppliers. During these meetings, Eroski is not only looking for new products to sell under its own brand, it is also looking for products that the co-op wants to sell under the brand of the suppliers. Eroski also negotiates with its suppliers a guideline to provide access to the best shelves and the best locations in their stores. Product positioning is an important part of the negotiation process, especially at a time when suppliers are threatened by the advance of the discount chains selling their own generic products or using their own brand. That is one of the biggest challenges that suppliers have to face today; particularly small suppliers with limited bargaining power. In that regard, Eroski is perceived as an ally and a partner with whom there is room for negotiations.

Shared Strategy with Store Managers & Franchisees

Within their value chain, global retailers aim at achieving economies of scale to increase their bargaining power vis-a-vis their suppliers. Downstream, they also look for ways to reduce their costs within their distribution network. Store and products standardization represent one possible strategy to achieve this objective. Ideally, a 1000 square meter store in Madrid should be similar to a 1000 square meter in Segovia. In addition, they should sell the same products at the same price using the same catalog. However, while Eroski stores look similar to the stores of their main competitors such as Carrefour, it pursues a different strategy and the relationship with its store managers is different.

AM: "Eroski uses the slogan 'contigo' ('with you') and this is more than just a marketing gimmick. It indicates what type of store we want to have in the future. It's a store that adapts locally. That means that in each region the products that are sold can be different. Each store will decide what products it will sell in that store because the clients of that specific area will want those types of products and not the ones decided at Eroski's headquarters.

Eroski's board of directors is composed of six consumers and six workers. The co-op assembly has 250 consumers and 250 workers. This has an impact on the internal and external relationships of Eroski as well as its way of doing business. A store manager has the option to sell products listed in the catalog or offer new products. It also has the freedom to change prices and promotion/marketing techniques. As a result, the presence of local products has increased considerably over time. This local sourcing strategy fits well Eroski's vision of its relationship with partners as well as its presence within local communities.

AM: "Those products that originated from local providers, especially the fresh products, vegetables, because the fresh products are fresher when they are local, because the lapse of time between the farms to the store is much less, and the environmental impact decreases a lot due to the lack of transportation. Besides, it contributes to the social support of the community because the farmers, the stockbreeders or the artisans live in the area."

Size is important in dealing with suppliers. However, at the sales level, Eroski considers that the ability to learn and to adapt to each market is more important than economies of scale. The ability to adapt to each market's needs represents sales opportunities. Each market is different, the clients and competitors from each place where Eroski has a store are different. According to Eroski's management team, the capacity to adapt to that market can provide five to ten points to an organization's margins.

AM: "When there is immigration, each movement represents a transfer of a certain consumption culture of that specific population, and new needs appear in different places. With one "standard offer" you reach only one part of the population, but you lose a lot of possibilities to adapt to an ever-changing market place."

In addition to its own stores, Eroski has around 500 franchised stores, owned by their storekeepers. The co-op sells them the products, but the store is theirs. According to Eroski's management team, those franchised stores obtain margins that are greater than the ones obtain at their own stores. The difference is that the storekeeper manages even the most insignificant details. In doing so, they is able to optimize what cannot be optimized by the larger organization. The teams in these stores see their role as radically different. From being the employees that fill the shelves with the products sent by the headquarters, they become the local marketers who analyze the clients' needs, the market and the competitors. With a better understanding of the local conditions, they decide what products should be requested from headquarters and what products should be sourced locally. These close relationships with local suppliers and consumers allow store owners to identify trends and quickly adapt to changing local conditions.

AM: "What we have learned from our franchise business can be embedded in our 'cooperativization' strategy. In our last strategic plan, we have decided to enable each of our stores to make their decisions as if they were franchised. We are decentralizing the decision making so that each store can make those small decisions."

Shared Values with Customers

Like Intermarche (France) and EDK (Germany) with whom Eroski shares 'specifications books' on some products, the co-op sells its products under various brands to address different market segments. For instance, Eroski sells products at very competitive prices under the brand 'Eroski Basic.' They also target specific markets under the brands 'Eroski Sania' (Healthy products), 'Eroski Nature' for ecological products and 'Eroski Selectia' for the more upscale items.

AM: "But consumers do not buy a product at a premium only because the sticker has a different name. You have to communicate with your consumers and explain why they should pay a premium. Just because you are a cooperative and consumers are present at your assembly would not be good enough to change their perception when they shop for food products. Your approach has to be backed up by facts."

There is a consumer organization in Spain known as Organizacion de Consumidores y Usuarios (Organization of Consumers and Users), that is very well known for its review of various products and opinions regarding suppliers. Among all the distributors, Eroski has been recognized as being one of the most consistent with regard to the quality of its products over a long period of time. This is in contrast to other organizations that provided quality products at one time and then downgrade the quality of their ingredients while keeping the same brand and price. With internet, Eroski understands that consumers are well informed. At the same time, consumer can provide timely feedback and suggestions. In this very public forum, a marketing strategy and the reputation of a brand have to be supported by genuine products that meet the advertised quality. In layman terms, an organization can't afford to "talk the talk" if it's not prepared to "walk the walk".

AM: "In addition to being transparent and truthful about the products that we sell, we also want the Eroski brand to be associated with healthy products, because in Spain, as in all the other European countries, the obesity rate is increasing year after year, especially the obesity in children, and that is a very important health issue. As a consumer cooperative we have decided that this is not just a problem for the Health Department, it is also our problem.

At Eroski the main medium of communication with the consumer regarding this type of issues, is a magazine that has been published almost since Eroski was founded. It's a monthly consumer magazine that has three million readers, both on the web and/or hard copy edition. The co-op considers that the choice of the ingredients in their branded products has an essential role in promoting healthy life style. Promoting healthy ingredients has not always been a popular topic in the dialog that Eroski had with its suppliers. For instance, the co-op has eliminated trans-fats from the shelves of its stores. There was initially resistance from the suppliers to eliminate trans-fat because of the cost implication and the fact that the absence of trans-fat could have a negative impact on the taste and look of some products. In that regard, Eroski was able to impose its view and consumers have accepted these healthier products with no negative impact on sales. There were also some disagreements when Eroski imposed clear labels that informed the consumer on the impact of the consumption of certain products on the consumer health. In addition to labels listing ingredients, the co-op imposed the use of simple colors to inform the customers.

AM: "If it's healthy it is green, if you have to be a little bit more careful it's yellow or orange, and you have to consume it moderately. The suppliers don't like this either. If it were green they would like it, but no manufacturer wants to say that one of its products has a yellow or an orange sticker.

No one wants to say that you have to consume my product moderately. They all want their product to be consumed without moderation.

In its interactions with external stakeholders [suppliers and customers], Eroski has been able to develop long-term relationships while keeping its own co-op values. This is a rare example of an organization, that is not being profit maximizer, being able to build a mutually beneficial model with other entities that are far more profit oriented.

Conclusion: Mondragon has developed multiple ways to stay small operationally while being able to achieve the same synergies and advantages of a large corporation.While this has been a challenge for companies as they grower larger and globally (Chase, 2001), Mondragon has developed a large enterprise that is unusually adaptive, responsive and innovative. Mondragon is often thought of as one large coop when, in reality, it is an umbrella organization of approximately 260 small to medium size businesses that are worker coops. The organization's competitive advantage is grounded in how decision-making and resources are shared across the production and service coops. In that regard, the study of Eroski illustrates how these principles work at the co-op level. However, Eroski is more than just a co-op. It is one of the largest enterprises of the Mondragon group. It has also operates in the retail industry. In that regard, it is particularly interesting to note that the co-op principles that work very well internally to coordinate relationships between co-ops have also had a substantial impact on the way Eroski deals with its external stakeholders such as suppliers, franchisees and customers. Eroski has a holistic approach toward these relationships. This approach is long-term and characterized by the decentralization of the decision-making process, the search for mutual benefits and a genuine interest in the needs of local communities. While the approach is genuine, it is not altruistic and we believe that traditional organizations that have lost market share and sales can learn from Eroski.

Figure 1

Mondragon's Worldwide Facilities

Source: https://www.mondragon-corporation.com/en/
Accessed: September 12, 2018

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