

CASE STUDY 6: MONDRAGON INTERNATIONAL CLUSTERS

Introduction

The Mondragon co-operatives history is that of a group based on geographically proximity of the co-operatives themselves, and on inter-cooperation among them. Mondragon and the Deba Valley; while compared to Emilia Romana (Becattini, 1990), it has been identified as an Industrial District.

The diversity of sectors, markets and technologies among Mondragon co-operatives can be attributed to the strategies followed by Grupo Caja Laboral back in the 1970s and 80s. In 1991 the Mondragon Group's industrial divisions were re-structured according to sectors, in order to enhance the possibilities thereof.

The Mondragon Group's new structure, organised around economic sectors, was coherent with the clustering strategy implemented in the Basque Country and based on the recommendations made by Professor Michael Porter from Harvard University. Today the Mondragon industrial co-operatives are not only divided into 12 industrial divisions (see Figure 3.9), but are also active members of the regional industrial clusters, such as ACICAE (automotive) or GAIA (telecommunication). It can be said that both strategies have been of great success.

The having of a global dimension is a requirement for most of the Mondragon co-operatives. Increasingly they are opening production plants abroad in countries and regions that have a similar series of challenges and opportunities¹. As a result nearly all the Mondragon projects abroad are dealing with virtually the same series of problems:

¹ For further detail see chapter 5

branding and acquiring a new local customer base, lobbying local governments, workforce training, workforce turnover and employee loyalty, certification of suppliers and quality control, logistics management, and issues of isolation, dissatisfaction and motivation of expatriate employees.

In the same way that the Mondragon co-operatives reacted to the demands of the market with a policy of regional clustering back in the 1970s and 80s, the current market demands on the subsidiaries abroad are encouraging a clustering of these companies. Even if it does not exist as a formal policy, this emerging phenomenon invites analysis.

Mondragon co-operatives FDI: share motivations and joint locations

While analysing the Mondragon Group production plants abroad, we came to understand that the original motivation for opening production plants abroad was very similar for most of the co-operatives. Regardless of the specific industrial sector or co-operative activity, the countries and regions where co-operatives open factories tend to resemble to each other.

In the following lines the main reasons for making FDI in each country or region are briefly reviewed²:

- **China and India:** Access to low cost purchasing and local markets with an outstanding annual growth rate. In addition to being able to produce those products, that are not profitable when made at the parent co-operatives, China and India are platforms to purchasing, to selling or to entering in neighbouring countries.
- **East Central Europe:** Locating close to customers this applies mainly to large manufacturers of domestic appliances and the automotive sector. The region

² To have a deeply description of the Mondragon production plants in emerging countries see section 5.5 in chapter 5.

- represents a strategic geographical position in the EU of 27 member-states³ and can serve the eastern countries (Russia, Romania, Ukraine, Kazakhstan), while at the same time allows production of technologies adapted to the different product life cycle (PLC) evolution (ceramic hubs and gas cookers that are substituted by electric cookers in western Europe), and enables the subsequent transfer of their production lines from parent co-operatives.
- **Mexico:** similar to East Central Europe in terms of geographical interest, but in this case also for accessing Central America and North America markets, where Mondragon market share remains small or non-existent for most co-operatives. According to MECI 2004-08, the United States was identified as the region with the highest potential opportunities and with lowest market share.
 - **Brazil:** Access to a huge local market with a strong industrial tradition which is a world centre for automotive production. This fosters the pursuing of technology in specific sectors or products, and serves as a platform for accessing to the South American countries.
 - **Western Europe, USA and Japan:** Access to technology or in specific cases, such as Fagor Brandt and Maier UK, the gaining of a strategic position in the local market.

Clusters strategy: a theoretical review

Economic Clusters are a widely researched phenomenon in the field of economic geography. This form of grouping companies has been studied since Marshall's (1890-1920) description of industrial environments, through industrial districts (Becattini, 2004), "stitch places" (Kanter, 1995), and finally in Porter's several works (1990, 1998, 2000). The publication of *The Competitive Advantage of Nations* (Porter, 1990) not only

³ At the time of writing the EU comprised of the following 27 member-states (in order of accession): Belgium, France, (West) Germany, Italy, Luxembourg, Netherlands (1957), Denmark, Ireland, UK (1973), Greece (1981), Portugal, Spain (1986), Austria, Finland, Sweden (1995), Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia (2004), Romania and Bulgaria (2007). Further enlargement of the EU is likely. Negotiations with Croatia and Turkey started in 2005 under the UK Presidency. Although an official candidate, a start date for negotiations with the Former Yugoslav Republic of Macedonia has not yet been set.

defined the cluster theory but helped also to trigger a large and growing number of formal cluster initiatives in countries all over the world.

According to Porter, in a global economy clusters cannot be understood as an independent fact in the competition and competitive strategy, because globalisation is a driving force of cluster formation and represents a common response to the problem of how nations and regions are trying to maintain competitiveness and the governments deal with the retaining and increasing their local region's wealth. Porter defines a cluster as a "geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities." (Porter, 2000: 16). It includes a balance between competition and cooperation, from an array of linked industries and other entities, that attempt to maximise competitiveness efficiencies. Companies share many common needs, opportunities, constraints, and obstacles to obtaining competitiveness. A cluster provides a constructive and efficient forum for dialogue among related companies, their suppliers, governments, and other entities.

Clusters as a source of competitiveness

The main objective of the "Cluster Strategy" is to increase the competitiveness of companies, while promoting and balancing the following synergies:

- Access to specialised inputs and employees. The presence of a company in a cluster may allow for access to important inputs, for example components, machinery and business services at a cheaper price.
- Access to information. The being part of a cluster allows for greater accessibility (in terms of ease and costs) to market and technical information that has been accumulated in the companies and agents of the clusters. "This also applies to the flow of information between units of the same company. Proximity, supply and technological linkages, and the existence of repeated personal relationships and community ties fostering trust facilitate the information flow within clusters"

- Obtaining information about current buyer needs is an important special case of the informational benefits of clusters” (Porter, 2000: 18).
- Complementary products for buyers. The spatial relationship of companies within a cluster facilitates the coordination of product and service offerings, and the interrelationship of companies compels to improve quality and efficiency.
 - Marketing economies of scale. A group of firms in a single industry can provide increased economies of scales and efficiencies by conducting marketing and sales activities jointly. The increased visibility of the cluster location also increases the visibility of the participants in the cluster, making it easier for buyers to visit and purchase from the cluster or from its members.
 - Synergies due to a better alignment of activities among cluster participants. Relationships with suppliers and the rest of the supply chain are more readily understood in the clusters. In addition, productivity improvements can be made when joint actions are taken by the cluster in areas such as common policies for personnel, resource management, etc.
 - Access to institutions and public goods. One of the primary advantages of clusters is their ability to create economies of scale and turn inputs into “public or quasi-public resources”, that is, into consistent and widely available inputs. An example of this is seen in employee recruitment initiatives, which attract locally trained employees, and save companies training costs.

Implementing clusters, keys of success:

The following criteria should be taken into account while defining clusters in order to foster the clusters’ strategy opportunities:

- A shared understanding of competitiveness, and the role of clusters in creating competitive advantage. Clusters must differentiate themselves from one another regarding productivity improvements and innovation. Attempting to do so with low wages, low taxes or currency devaluation strategies does not promise long term competitiveness. So that participants could understand the factors that create

- productivity and how the clusters can enhance it, it is necessary to have initial discussions with cluster members about the difference between real competitiveness and subsidies, along with continuous conversations that will clarify these points.
- A focus on removing obstacles and easing constraints to cluster upgrading. It is important that clear conversations that define expectations and objectives for clusters be part of the planning phase of the cluster initiative. Subsequently it is important to restate and reinforce these goals. These factors will help to ensure that attempts to control competition or to look for subsidies be avoided.
 - A structure that embraces all clusters in a nation or state. “Setting priorities not only is bad economics, it disenfranchises large parts of the private sector” (Porter, 2000: 16). Early careful choices help to spread concepts and processes to the clusters, and these will be included in the later initiatives.
 - Appropriate cluster boundaries. Clusters should be made up of companies and other agents sharing some relationship, connection or overlap. They should not just be constructed around broadly defined terms or concepts, like technology companies, high tech, etc.
 - Wide involvement of cluster participants and associated institutions. Clusters themselves should attempt to incorporate companies of varying sizes in addition to representatives of outside parties and stakeholders. The failure to include key stakeholders or parties can create unexpected opposition or enemies to the cluster initiative.
 - Private sector leadership.
 - Close attention to personal relationships. The positive aspects of clusters mostly result from the personal relationships, communication and trust promoted by them. Relationships will grow and become stronger depending on the degree these relations can improve the flow of information and know-how. Third party facilitators can be key agents in facilitating trust building, but from the project’s start a concerted effort to promote regular communication inside and outside the cluster is necessary.

- A bias towards action. Cluster initiatives must be motivated by the desire to achieve results.
- Institutionalisation.

As previously stated, cluster theory has specific characteristics. The creation of a cluster might be achieved gradually, as long as the clustering process is taking place. But implementing the cluster approach at an early stage helps regional development success. “Seeing a group of companies and institutions as a cluster also highlights opportunities for coordination and mutual improvement in areas of common concern with less of a risk of distorting competition or limiting the intensity of rivalry” (Porter, 2000: 17).

Mondragon regional clustering strategy

The creation of new worker co-operatives was promoted by Grupo Caja Laboral under two conditions: That all new co-operatives have an entrepreneur committed to the project, and that the new company was “not a potential competitor of any other existing co-operative”. This strategy resulted in many worker co-operatives spread all over Mondragon’s surrounding local villages, supported by entrepreneurs from: Aretxabaleta, Oñati, Bergara, Ordizia, Eibar, Markina, and Gernika⁴.

The co-operatives’ clustering policy dates back to 1964, when the first district co-operative group ULARCO (now called the Fagor Group) was established in the Mondragon Valley by four of the first co-operatives: Ulgor, Arrasate, Copreci, and Ederlan. The co-operative group was established as a private association and regulated by a multilateral contract. This clustering strategy was pursued in order to enjoy the benefits of shared resources without the problems of large-scale organisations, providing

⁴ This strategy has often been described as lacking in competitiveness by business management consultants who state that the Mondragon Group should focus on fewer business activities achieving a bigger dimension instead of having smaller enterprises on multiple sectors.

In 1991 the Mondragon Group industrial divisions were re-structured around sectors in order to balance co-operative size and synergies. But, contrary to what might be thought, Mondragon leaders believe that one of its biggest assets is the diversity of sectors, technologies and industries present in the group and the way they complement one another (J. CATANIA, 2006).

coordination rather than the creation of a larger co-operative. “There was some controversy over the extent to which the co-operative groups should play an executive rather than staff role” (Clamp, 2000: 16). The Fagor Group agreed to joint services in such areas as personnel, marketing, new product development, economic and financial services.

More than thirty years later in 1978 the Mondragon industrial co-operatives guided by Caja Laboral, with the aim of promoting coordination among those small co-operatives outside of the Deba Valley, implemented a “regional cluster” policy. Led by Ormaechea, several clusters were created: Orbide, Learko, and Goilan. The motivation for this was the promoting inter-cooperation with new synergies based on geographical proximity, in order to obtain economies of scale. One of the Learko founders mentioned some of the success factors of the project: it was led by people with broad experience who had previously worked at the co-operatives in Mondragon; there were no commercial links between the co-operatives; there were social links and a social commitment among the leaders. “Since they had been students together in Mondragon, they had the awareness that a co-operative group could resolve problems or help resolve them” (Clamp, 2000: 16-17).

The reality of 56 local industrial co-operatives with 15,130 workers back in 1978 in a closed country, where democracy was recently established, differs considerably from the present XXI century situation. At the end of 2006 the Mondragon Group’s industrial division includes 100 worker co-operatives, and 118 affiliated companies with a total of 42,444 employees, 14,216 of which work at the 65 production plants abroad.

Until MECI 2004-08, the Mondragon Group did not follow a specific strategy to place co-operatives production plants abroad located in the same environment. Those cases when the Group Headquarters did propose joint placements abroad were not heeded by the co-operatives. As each Mondragon co-operative is autonomous following its own strategy when moving abroad, the fact of the common placements is the case especially for those co-operatives that were forced to do so as part of a reactive or defensive strategy

(or in some cases by customers as a contract condition). During the initial phases of the Mondragon Group's internationalisation process, there was not a formal strategy to promote or guide the Mondragon co-operatives placement abroad, and the Mondragon headquarters' recommendations for placement were not convincing to the co-operatives.

Having said that, at the end of 2006 among Mondragon 65 production plants abroad, there are four international clusters (Kunshan in China, Wrocław in Poland, Olomouc in the Czech Republic and Queretaro in Mexico); the distance between factories varies from sharing a common business park to a maximum of 50 km. In all the cases the production plants share the same city centre. This is also the place where local and expatriate managers live.

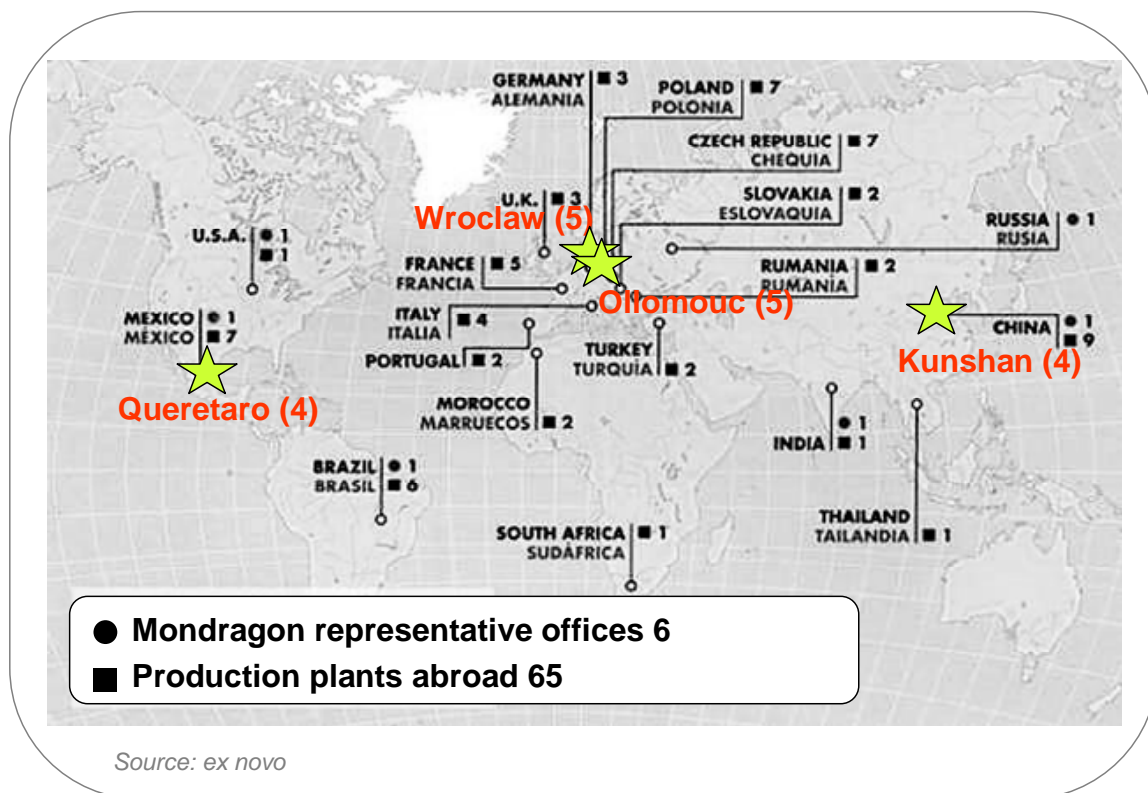


Figure 7.65: Mondragon international clusters: location (Dec. 2006)

The international cluster phenomenon is quite new; in fact if the same analysis would have been done in 2005, only the Queretaro cluster (Mexico) would have been found.

For that very reason, the Mondragon international clusters can be considered an important experiment to be explored and reinforced.

Mondragon's international clusters abroad

MONDRAGON INTERNATIONAL CLUSTERS	CREATION DATE	INTER-COOPERATION DEGREE	MAIN SINERGIES (order by importance)	COOPERATIVES INVOLVED	NUMBER OF PEOPLE (Dec 2007)	TPOLOGY BY LOCATION DISTANCE	TPOLOGY BY COOPERATIVES INVOLVED
BRAZIL PROMOAUTO (Brazil)	2001	HIGH	Customer management Country learning Government Supplier management	Maier Batz Fagor Ederlan Automodulos	(finish in 2001 except Fagor Ederlan Brasileria)	SAME INDUSTRIAL PARK (<5 Km.)	MONDRAGON COOPERATIVES & NON MONDRAGON COMPANIES (Gestamp,...)
WROCLAW (Poland)	2001	MEDIUM	Customer-supplier relationship Government Country learning	Fagor Electrodomeesticos EIKA TAJO EMBEGA COINALDE	2144	SAME CITY CENTER (< 50 Km.)	COMPONENTS DIVISION COOPERATIVES: Fagor MasterCook, Eika Polska, Tabiplast 1, Tabiplast 2, Coinaide y Embega
QUERETARO (Mexico)	2001	MEDIO	Government Country learning Supplier management Management model (Irizar & M. Assembly)	Irizar Group EIKA Mondragon Assembly Matz Erreka	550	SAME INDUSTRIAL PARK (< 5 Km.)	MONDRAGON COOPERATIVES FROM DIFFERENT DIVISIONS: Irizar Mexico, Erreka mex, Eika Mejico, Mondragon Assembly Mejico
MONDRAGON KUNSHAN INDUSTRIAL PARK (China)	2004-2007	HIGH	Government Common investment & construction Country learning Logistic management Supplier management Common services People management Common training programs	ORKLI DIKAR-Wingroup OJARSO ORBEA BATZ Fagor Arrasate Fagor Industrial	500 (under construction)	MONDRAGON INDUSTRIAL PARK	MONDRAGON COOPERATIVES & NON MONDRAGON COMPANIES: Orkli Ch, Wingroup Shanghai, Ojarso Ch, Orbea China (2007) Batz, Fagor Arrasate, Fagor Industrial & GESTAMP (2008)
OLLOMOUC (Czech Republic)	2007	MEDIUM	Government Country learning Customer management Supplier management	COPRECI CZ EIKA CZ MAIER BATZ CIKAUTXO (SL) F.EDERLAN TAJO MATZ ERREKA	900	SAME CITY CENTER (< 50 Km) (* Except Cikautxo & F. Ederlan)	FILIALES DE COOPERATIVAS: Copreci CZ, Eika CZ, Foundeika, Maier CZ, Batz CZ, Cikautxo SL, F. Ederlan SL, Treboplast

Source: ex novo

Figure 7.66: Mondragon international clusters description

The Mondragon Business Park in Kunshan, China (2007):

On November 14th 2007 the first Mondragon Business Park outside of the Basque Country was inaugurated. There are four production plants there: Wingroup Kunshan,

Jose Mari Luzarraga PhD
Mondragon University - 2008

Orkli CH, Oiarso CH, and Orbea CH. Two are relocations from previous placements in the country, and two are new ventures in China. Mondragon expects to have 2,000-3,000 employees by 2010.

Coincidence and shared needs

In 2003 Wingroup Shanghai was informed by the local government that they had to move their factory to another location within two years, due to the creation of the Shanghai Automotive City project. At the same time Orkli, which had a rental factory in Ningbo, was searching for another location to start its own greenfield project. Both parent co-operative managers met in Mondragon. This was an excellent opportunity to look for a new location together and for building a common project. A short time later two other co-operatives joined the project: Oiarso (medical equipment co-operative) and Orbea (a bicycle manufacturer).

The former Wingroup Shanghai Manager, who had lived more than four years in China, coordinated the construction of 300.000 square-metre business park at a cost of €30m.

In December 2006 he was delighted with the results of the project, having overcome many difficulties in the three years of the construction process. He explained that to his disbelief a brand new business park stands where only a few years ago there was nothing but muddy fields; and he stated that “the construction was the easiest part; what was much more difficult was dealing on a daily basis with local Chinese bureaucracy and paperwork”. Those with an awareness of the country can imagine what he was referring to.

Current and future synergies

The Kunshan Industrial Park was analysed in December 2006, interviewing managers and employees; since then a short contact has permitted to keep abreast of their progress. At that time, the park was almost finished, with three of the co-operatives preparing to

move in. Although it may seem premature to identify synergies as a result of the co-operatives' new location, the managers already can point out some items:

- Investment: the cost of land and construction has been considerably cheaper (more than 30%); it has also been possible to find a better location (individual smaller projects would not have been able to do this). For Oiarso (an 80-employee co-operative) the working together has been crucial for the feasibility of the China project. Oiarso China expatriate manager affirmed: “We are too small to think of coming to China alone. The factory we built is even larger than the one at home, and our workforce here will be also larger. For us, the being part of the Mondragon Kunshan project allows us to come as co-owners with MCC Investment and ask for financial resources from banks outside the Mondragon Group”.
- Government relationships: in China, the relationship with local and regional government officials is crucial for any project's feasibility. In the Kunshan project this political issue has been particularly important for having construction / planning and operational permission or for receiving services (such as electricity or water) on time. Mondragon co-operatives have merged their individual capacity, and have only one interlocutor managing their *Guanxi* network.
- Country knowledge and expertise transfer. Probably the largest asset for a manager in China is his knowledge of the country. Usually, most of the expatriate managers will be fully operative at least a year and a half or two years after their arrival. As the current Wingroup Kunshan manager affirms, “it is a little annoying to be constantly answering questions and providing contacts to those who that have just arrived, but when I remember what happened when I first came four years ago – that any small issue became a headache – I am glad to transfer this knowledge and country expertise to the comers”.

All the production plant managers at the park agreed on the importance of having been located in the same park with a common entrance. As the former Orkli CH general manager, states “it is the feeling as living in the same house; while everyone has their space for their needs, we are still able to meet each other in the

- living room or corridor and go into our day-to-day problems, sharing among us the lessons learned. Being located only a few kilometres away would have reduced significantly this knowledge transfer and the opportunity for common initiatives”.
- Feeling at home: at present, China (and especially Shanghai) is radically different from the late 1980s or 1990s. One of the most experienced Basque expatriates from Igeo Partners affirms, “back in the 90s we were coming and going on a monthly basis and always after the first week in the country everyone fell down into a deep depression and sense of loneliness.” The 21st century Shanghai seems to be closer to New York than to a developing country, with its vibrant city centre and 18 million citizens. The colossal skyline, numerous discos, *julebu* or karaoke are radically different from rural villages in the Basque Country such as Mondragon, Eibar or Ordizia; even Bilbao with its 1 million inhabitants can not be even compared. Therefore, it is important to have colleagues who share a similar lifestyle, especially for a community with co-operative values. Nevertheless, it has to be mentioned that nowadays at branches and at parent co-operatives, Mondragon co-operative managers are in some way different from Arizmendiarieta’s first followers, whose day-to-day life was inspired by the Christian social doctrine.
 - Customer image, branding and marketing: in countries such as China, where the quality and capacity of the factories is constantly scrutinized, being part of a common business park branded with your company’s label has a strong impact. This applies not only for smaller companies such as Oiarso or Orbea with little expertise in China, but also for experienced companies such as Orkli or Wingroup, an indoor fitness equipment producer whose main clients are European retail chains and some multinationals, Carrefour for instance. The Wingroup manager states: “I am sure that this new placement will allow us both to have a better relationship with current customers, and to attract new international retail chains whose procurement centres are located in China, as well as to look for reliable suppliers in China that will assure high volume capacity and at European standards of quality control”.

The above examples are some of the most important synergies identified by Mondragon Business Park managers in Kunshan as early as 2007. They also revealed other synergies that will appear once they start producing. These are:

- A common salary⁵ policy: a united force allows subsidiaries to operate with a common salary policy. Otherwise, there would be competition among production plants regarding the similar type of employees. This process is already taking place, and a minimum monthly salary of 850 CNY (81.26 EUR & 117.29 USD) has been defined (The Chinese official minimum monthly wage in Shanghai is 750 CNY)⁶.
- Training centres, educational programmes, and employee social benefits. A CEIBS⁷ University study makes clear that according to the leading multinational executives in China, corporate education centres and programmes serve as the best tool to retain employees and reduce staff turnover. “GE opened its second-largest training centre, outside its New Jersey headquarters, in 2003 with the 42,000-square-foot Global Resources Centre in Shanghai. The centre offers R&D, sourcing, and training courses for employees as well as for government officials and GE customers” (Fernández, 2005: 49). Although it has no formal training strategy, the Mondragon business park in Kunshan already operates a site for training programmes, one of which also includes a restaurant and a building for an employee residence. No part of this initiative is to be paid for by any co-operative individually.
- Supplier certification programme and management. Accepting that co-operative industrial activities differ, it is clear also that their most decisive supplier will also differ. But there are some other service providers (for instance accounting, IT and legal services, packaging, raw material, etc.) that co-operatives have the

⁵ The terms “salary” and “wages” are used to express similar concepts “the amount of money employees receive”, not including taxes and social benefits.

⁶ The East China metropolis local government announcement for Shanghai (*Shanghai Daily* August 8th 2006). For other cities the minimum monthly wages are for instance for Shengzhen 850 CNY (*Shengzhen Daily* April 19th 2006). Back in 2004 for 30 regions of China's mainland the minimum instituted wage, with Shenzhen boasting the highest monthly level of 600 CNY (about 73 USD), Shanghai 570 CNY (69 USD), and Beijing 495 Yuan (60 USD). (*Xinhua News Agency* July 26th 2004).

⁷ China Europe International Business School (CEIBS).

- opportunity to purchase jointly, receiving better price conditions and service, sharing at the same time mutual costs and knowledge.
- Logistics, transport and quality control policy: managers identify these activities as something of mutual use for the whole business park. While each factory has its own volume, product specification and transport requirements, it is still more efficient to merge these activities with payment agreed upon in accordance with specific use.

These inter-cooperation opportunities will be carried out in the following months.

The Mondragon international business park policy, until now active only in Kunshan, appears to be a significant opportunity; the former Mondragon Group President has already stated that this strategy will be probably implemented in India and Russia during the coming years.

The Wrocław cluster, Poland (2001):

Since 1997 when the Fagor Electrodomésticos Group arrived to Poland, buying Wrozamet (a longstanding Polish factory), many other electronic home appliance manufacturers (Electrolux, Whirlpool, and LG) have also arrived and many component suppliers opened factories in the Lower Silesia. Four components co-operatives (Eika Polska, Tajo Tabiplast, Coinalde, and Embega) have recently opened plants in the same area. In this clustering process examples of inter-cooperation are already taking place:

- There are customer-supplier relationships among the production plants abroad. Highly influenced by the role and size of Fagor MasterCook with 2,000 employees working at the remainder of the subsidiary, suppliers of Fagor and other large domestic appliances manufactures have placed themselves there.
- For the first time in the history of the Mondragon Group a production line of one co-operative has been placed inside the factory of another co-operative to serve as an internal supplier. This is the case with Tajo Tabiplast, which has 21 employees, and is now an “in-house” supplier for the new washing machine factory built in

- 2006 by Fagor MasterCook. Fagor has two in-house suppliers: a local Polish company, and Tabiplast.
- The Basque government has established strong relationships with the Lower Silesian regional government, in order to encourage regional inter-cooperation. In 2006 SPRI, a private company that the local government uses to support entrepreneurial activity, opened its second office in Poland. This office is part of the new *Euskarri* policy that SPRI has implemented, which includes a business centre and a new FDI plants incubator.
 - Personal relationship among expatriates: the personal relationship among those working in Wrocław is very close. It is not uncommon for expatriates to meet at the local language school when attending Polish lessons, and to share problems about suppliers or customers, fix schedule meetings to work on a project, help each other by advice giving, provide contacts or personal support.

Until now no common initiative has been undertaken to encourage these potential synergies or to create a formal organisation with the aim of coordinating such activities and promoting inter-cooperation synergies.

The Queretaro cluster – Mexico (2001):

The companies in the Queretaro cluster in Mexico, not unlike the factories in Kunshan, do not share an industrial sector but rather a strategic location. Since Irizar Mexico landed in 2000, three more production plants have been opened at the same business park: Eika Mexico, Erreka Mex, and Mondragon Assembly.

The co-operatives placed in Queretaro have never created a formal cluster programme, but because of personal relationships they are already inter-cooperating in the following areas:

- Place selection, and investment: based on the positive experience of Irizar-Mexico, once Eika decided to open a factory in Mexico to enter the American market, also decided to place itself in Queretaro. At present, the plant is located

- 200 metres far from Irizar in the same business park. Mondragon Assembly and Matz Erreka did the same, and are settled, the former 5 km and the latter 50 metres away from Irizar (some co-operatives have bought the land where they are located, others are on rental contract). Fagor Industrial, which was also arriving in Mexico at the same time, did not decide at the end to buy land together with Mondragon Assembly, but to place itself in San Luís Potosi (approximately 400 km away). Its Uruguayan manager states that Queretaro “is more expensive; I found better conditions for investment in San Luís”, and continues: “I also have a close relationship with other Mondragon subsidiary managers”.
- Local government, trade unions and lobby groups: the weight of local government in Mexico is strong. The Basque government has a good relationship with the governor of Queretaro, and all these personal contacts help to overcome local bureaucracy. Regarding trade union representatives, all of the Mondragon production plants in Queretaro have the same person as the local representative. As Mondragon subsidiaries have slightly better employee conditions than other multinationals, the relationship is smooth.
 - Shared accounting, IT and legal service providers: based on the positive experience of Irizar, every new co-operative arriving in Queretaro contacts the same service providers. At the end of 2006, all the production plants shared the same service providers, and used their size and economies of scale as a negotiation tool.
 - The personal relationship among production plants managers is strong due to a common life style. The families of managers build relationships that encourage the expatriate managers to meet socially⁸.
 - Relationships with universities and training programmes: while Mondragon production plants maintain links with local universities, until now they do not have a common policy or training programme. In 2006 four *Socrates* students

⁸ Many are close friends, meeting to have dinner, to participate in the activities of each family's children, or to play *mus* on Sundays. Even for the moment they do not have an *Euskal Etxea* (a Basque cultural association) in Queretaro, a feeling of community is strong among the Basque population in Queretaro. It has to be mentioned that everyone agrees that their wives' role on creating personal relationship among co-operatives' expatriates has been of great importance.

from Mondragon University, in collaboration with the Tecnológico de Monterrey educational institution, completed their undergraduate theses and internships at Mondragon production plants. Since then a student exchange program has been established. Such initiatives reflect new opportunities for educational programmes that need to be explored and coordinated in the future.

The Olomouc cluster, Czech Republic (2007):

Since Copreci CZ was established in 1997, many other Mondragon production plants have opened with the aim of supplying domestic appliance and automotive manufacturers; however, this has occurred mainly in the last 3 years, and by the end of 2007 the following subsidiaries were already in action: Maier CZ, Batz CZ, Cikautzo CZ and SL, Matz Erreka, Tajo Treboplast, Eika CZ, and FoundEika.

Until 2006 the cluster relationship was an informal one, in which subsidiary managers shared their expertise and knowledge based on personal relationships. In 2007, due to having four production plants from the automotive sector placed in the same region, the Mondragon automotive division scheduled a formal programme for monthly meetings. The objective was to encourage knowledge transfer and the identification of potential joint initiatives.

At present, the formal meetings include not only Mondragon production plants from the automotive sector, but also any plant located in the same region. Production plant managers feel that the monthly meetings schedule is very important and comply with them, though the daily tasks make difficult at times the sharing even of the informal knowledge.

The Olomouc clusters involve an additional difficulty by the fact that some of the factories (such as those in the Slovak Republic) are more than 200 km away from each other. The monthly meetings are rotary, with each meeting taking place every month in a different factory; and this policy allows also the managers to visit all the factories during the first year in charge.

In June 2007 at a cluster meeting, it was decided that it would be beneficial to programme meetings not only for general managers, but also for the individual departments of each plant (such as accounting, HR, sourcing and logistics), with the aim of spreading the inter-cooperation mentality among the subsidiaries. It is clear however at the Olomouc cluster that this was a brand new initiative, and that inter-subsidiary cooperation is still developing.

Additionally there are exchange programs between the Mondragon University and Czech Universities, and in fact a few students from Mondragon have already done their careers' final projects at Mondragon production plants in the Czech and in the Slovak Republic.

Potential synergies among international clusters

When analysing the clustering of Mondragon production plants abroad from a global perspective, one can identify a multitude of positive synergies, all based on geographic proximity and on location sharing. Based on the information provided while visiting and interviewing subsidiary directors, we found the following synergies common to all the clusters:

- Branding, marketing and management of lobbying efforts: mainly at local and national government level, and at the customer and supplier level.
- Sales and sourcing management: customer opportunities based on economies of scale and certification, supplier opportunities based on scale and negotiation capacity, supplier certification processes and quality control.
- Human resource management: education and training programmes, common labour conditions, professional career management, employee social benefits and

- (consequently) the reduction of employee turnover and a growing sense of loyalty and belonging.
- Logistic and supply chain management: enhanced agreements on transport conditions, as well as a coordinated structure of logistics and scale-based synergies.
 - A commitment to the local environment: a commitment to positive socio-economic impact based on employment creation capability, the promotion of social transformation capacity of people-centred enterprises inspired by co-operative principles, and the creation of opportunities for new, local social enterprises based on the same principles.
 - Project financing: improved conditions for each co-operative, based on joint land and construction projects, as well as on construction process management.

Such potential synergies are made possible by the inter-cooperation network among the production plants. This is influenced by the following aspects of the project: the industries and ownership of the companies, and the distance/integration among subsidiaries.

- Geographical integration: There is a varied degree of subsidiary placement integration in foreign countries. Four types of geographical integration with corresponding levels of inter-cooperation synergies are stated here:
 - Overseas production plants located in the same region, but separated by distances greater than 40 km.
 - Overseas production plants located in the same urban area at a distance among the subsidiaries less than 40 km and with managers sharing a common residence.
 - Overseas production plants located in the same industrial area or park, the distance from each other less than 5 km.
 - Overseas production plants located at a Mondragon business park, with a common entrance and shared services such as a restaurant, security or landscape maintenance.

COMMON PLACEMENT SINERGIES	Same region being production plants located > 40 Km.	Same region being production plants located < 40 Km. and sharing managers the same city center	Same industrial park < 5 Km.	Mondragon industrial park with common entrance and services (restaurant, training centre,...)
BRAND MANAGEMENT	2.0	3.0	7	10
COMMERCIAL MANAGEMENT	1.3	4.0	7	10.0
PEOPLE MANAGEMENT	0	1.8	7	10
LOGISTICS MANAGEMENT	1.3	3	8	10
SOCIAL RESPONSIBILITY MANAGEMENT	1	4.5	8.5	10
KNOWLEDGE & INNOVATION MANAGEMENT	2	4	8	10
INVESTMENT FINANCE	0	0	2	10
TOTAL	22	65	152	200
AVERAGE	1.1	3.25	7.6	10
ORDER	4	3	2	1

Source: ex novo

Figure 7.67: Mondragon international clusters: synergies by distance among production plants

In the above chart, the relative importance of the potential synergies resulting from geographical proximity is ranked. This ranking is based on the fieldwork conducted while visiting and interviewing Mondragon co-operative managers abroad.

- Typology of subsidiaries: there are several possible types of production plants that could be placed in a joint project:
 - A combination of Mondragon and non-Mondragon companies.
 - Mondragon plants from different industrial divisions.
 - Mondragon plants from the same industrial division.
 - Mondragon plants from the same industrial division, and with a customer-supplier relationship.

COMMON PLACEMENT SINERGIES	Mondragon cooperatives and non Mondragon companies	Mondragon cooperatives from various divisions	Mondragon cooperatives from the same division	Mondragon cooperatives with a customer-supplier relationship
BRAND MANAGEMENT	3.0	6.7	10	10
COMMERCIAL MANAGEMENT	2.0	6.7	10	8.0
PEOPLE MANAGEMENT	0.4	8.2	10	8.8
LOGISTICS MANAGEMENT	2	10	10	10
SOCIAL RESPONSIBILITY MANAGEMENT	-2	10	10	9.5
KNOWLEDGE & INNOVATION MANAGEMENT	2	9	10	9
INVESTMENT FINANCE	10	7	5	5
TOTAL	19	169	200	184
AVERAGE	0.95	8.45	10	9.2
ORDER	4	3	1	2

Source: ex novo

Figure 7.68: Mondragon international clusters: synergies by production plants profile

In the chart above, the relative importance of the potential synergies (according to the typology of subsidiaries) is ranked. This ranking is based on the fieldwork conducted while visiting and interviewing Mondragon co-operatives managers abroad.

Lessons learned and conclusions about the Mondragon international clusters

The above analysis leads us to the following conclusions regarding the capacity for inter-cooperation and for potential synergies that have emerged from coordinated placements of the Mondragon production plants abroad:

- The most important alternative is that of having a common Mondragon business park where Mondragon oversees production plants are located. It is of great interest that the plants are located as close as possible to other Mondragon companies for many purposes, especially for the fact of sharing the same industrial park.
- Inclusion of non-Mondragon production plants, which might have a positive impact on project financing, scale and competition. However, this alternative does may reduce potential opportunities for inter-cooperation in the Mondragon subsidiaries. In addition, it might have a negative impact on the social dimension and on the expansion of co-operative principles.

- As a consequence of the level of integration and of shared activities (supplier quality assurance and logistics / supply chain management) a common structure is needed to manage activities for all the production plant clusters.
- Even if the three alternatives (Mondragon *distinct* division subsidiaries, Mondragon *similar* division subsidiaries, and customer-supplier relationship among Mondragon subsidiaries) present positive synergies, it seems that the most beneficial is the clustering of production plants (no matter the division) with no customer-supplier relationship.
 - Those production plants from similar industrial divisions might be more likely to enjoy all of the potential synergies to the fullest extent; nevertheless, it is worth promoting joint location no matter the division, for even low levels of inter-cooperation can be extremely beneficial.
 - Those production plants with a customer-supplier relationship might have economic interests that are at odds, preventing the exploration of broader inter-cooperation strategies. Such a strategy was a part of the Mondragon cluster policy in the Basque Country back in the 1970s with groups such as Larko or Goilan, and resulted in unequal relations between co-operatives.
- Mondragon social transformation capacity abroad is strongly reinforced by having a common business park. This approach could be a beneficial opportunity to share common co-operative values, though it also involves the risk of assuming non-co-operative values and practices. Therefore, specific guidelines and rules should be stated and brought about, accompanied by Mondragon University educational branches or/and training centres, as well as by Mundukide social projects in the region of the park.