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# **GLOBALIZATION OF THE SOCIAL ECONOMY: INTERNATIONALIZATION STRATEGY OF A CO-OPERATIVE**

FINAL DEGREE PROJECT

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# 1. GOALS OF THE STUDY, METHODOLOGY AND STRUCTURE

Ever since the globalization started, the way of doing business has completely changed. Companies started to think bigger and making strategies of a bigger scale than before, when they would only think about the domestic market. It changed the whole way of doing business, and opportunities for the businesses, as well as the choices for the consumer, rose and keep rising. The change became more notable when the new century kicked in and the internet, as well as countless technological breakthroughs, revolution the markets. In the wake of all this changes, new opportunities and ways of doing business increased, but so did competitiveness, because it also brought new threats to worry about.

I live in the small region of Spain called The Basque Country. Although being a small region, its economy is one of the strongest in the Spanish state. It is in direct contact with ports (Bilbao) and with French border and the implications of the new mentioned dynamic world is well integrated into the business life. Moreover, the industrial businesses have always been a great sustain in the Spanish economy, and the Basque Country has been one of the most industrialized areas in Spain by far since the industrialization began. One of the companies that made a great impact in the industrialization of the Basque Country, was “Mondragon Cooperativa”. From the 50s the cooperative has been expanding a creating many industrial production co-operatives, among other co-operative companies. This co-operativistic model is the one I will focus on to do this research, as well as an industrial company. I will look into the electric heating sector and its industrial production by one of the main companies in the world that produce them called EIKA, which happens to be a co-operative situated in the Basque Country.

**GOALS OF THE STUDY:** The objective of this research is to evaluate the social economy in the new globalized world. Furthermore, how the co-operatives of this social economy have globalized and internationalized. To do so, and give further insight to the study, I would like to see if when a specific company goes international, it carries out the same social actions abroad as well as at “home”. To understand better all this, I intend to study the internationalization strategies and processes the co-operative companies have to carry out to get internationalized.

After researching all this, I will apply it all to a fully functioning company that follows the co-operative model. My choice is EIKA: It’s an internationalized co-operative company with many subsidiaries. We will be able to see in its internationalization process, but also, studying EIKA will allow us to look into the social economy concept and, inside that concept, the co-operatives. EIKA has bounds with all those terms and besides, it is part of the “Mondragon Co-operative Corporation”.

**METHODOLOGY:** The methodology I will use will be different in each part of the job. The first part will focus on gaining historic information in a synthetic-analytic way. In the second part of the job, the focus will go on applying all the information gained and study a suitable case to carry out our research. So, I will use the empiric method to see a practical example. This methodology

is necessary to understand the social economy, co-operativism and the internationalization as it combines the theory and practice to create a wider understanding of the concepts.

For the first part of the research, I have used different web pages, books (found in the internet) and so on. Also, I have used different final degree projects, thesis and researches to get the information for the work. As for the internet material, I have searched in many webs no matter the language (Basque, Spanish English). I should also mention the use of my personal material from the past 4 years of studies.

As for the empirical part, most of the information collected is desk research information. I contacted the human resources head of EIKA and she got me an interview with the CEO of EIKA. We met one morning, and I asked him many questions about the company and the matter studied, for about 2 hours. The questions were directly connected with the first part of the research, that had come up for a better compression of the case. To complete this part, I also used the web page of EIKA as well as some articles related EIKA's activities.

STRUCTURE: As for the first part, I will define every theoretical point needed for the work. First of all, I intend to dig into social economy; how it was created and developed into today's world. Furthermore, in addition to social economy and to know a little more about the company we will be evaluating, I intend to understand better co-operatives and their nature. Also, since I will be reviewing a company from Mondragon, a wider view of what it is and what it represents will be of my interest as well. Last, but not less important, I will look into globalization and how it has affected in the way we do business and its advantages. The end of this part will focus on the strategies of the companies, what they have to think of and the choices they have if they decide to internationalize the company.

For the second part, taking EIKA as reference and with the intention of evaluating its structure, first, I will define the history, mission and goals of the company to locate and understand the purpose of the company. Then I will proceed to evaluate the external environment of the company, followed by an internal research, all this to create a theoretical SWOT matrix and a theoretical 10 steps to the internationalization. I will also look to the social responsibilities of the company as part of its evaluation. But as one of the goals of the research, I will also intend to find out about the social responsibilities outside our frontiers, if there are any, and how they carry them out.

In the third and last part, it will come the conclusions to all of this.

PERSONAL THOUGHTS: I will finish this introduction commenting the decision of making the project in English: As we all know, and I strongly agree, English is the meeting point of all the international discussions. It is mandatory to control the language if you pursue and international business life. In addition to that, is a language I think I can handle quite well, and a work of this size will only help me improve my English skills. In addition to that, the very early stages of this job were in the final months of my Erasmus in Krakow, Poland. I was involved in an international lifestyle where English was prominent in my everyday activities as well as in my classes, of course. So, I decided to follow that trend and do this project in English as well. My Erasmus also

brings me to comment the decision of choosing EIKA. Since I was in Poland, I wanted that my internationalized co-operative to be settled in Poland at least. So, I made my research and I chose EIKA, which has one subsidiary located in Wroclaw.

**1<sup>st</sup> Part:**  
**Theoretical Part: Social Economy,  
Co-operatives and  
Internationalization**





## 2. CO-OPERATIVISM

### 2.1. SOCIAL ECONOMY

#### 2.1.1 HOW DID IT BEGIN?

The term “social economy” came into use at the end of the 18th century as part of the great political, economic, and social debates that so characterized that extraordinary period in Europe. For a long time, its meaning was much broader and amorphous than it is today. Anyone can develop their own a priori conception of the social economy, simply by placing more or less emphasis on either its economic or its social dimensions, both of which are wide-ranging. It was more a matter of perspective. In the final analysis, any economic phenomenon that has a social dimension, and any social phenomenon that has an economic dimension, could be considered part of the social economy.

Some researchers (Develtere, 1997; Demoustier, 2001) retrace the roots of the social economy to Roman times, Greek, even the ancient Egyptian organizations. Centuries later, the guilds emerged in the Germanic and Anglo-Saxon region between the 9<sup>th</sup> and 11<sup>th</sup> century. These guilds were associations of craftsmen that responded to objective needs for assistance, reciprocal support and charity. The social aim of cooperation for a greater good was settled in such organizations, although they also were to guarantee mutual aid and to protect their members from improper competition. More associations flourished during the medieval period and they took various forms and had many names: brotherhoods, guilds, charities, fraternities, merchant associations, trade associations, communities, master associations, guild master ships and others. Moreover, it seems that associative forms and practices existed everywhere. In France they materialised as “compagnonages”; associations of workers, securing lodging, food, education and social protection for the “companions”. This kind of mercantile associations spread not only in Europe but also in Byzantium, Muslim, Indian and Primitive African countries during Medieval and post-medieval ages (Defourny and Develtere, 1997).

The most recognised beginning of Social Economy (even though, as mentioned, it has had many pre-stages during history) is set in his cousin term “civil economy” in the 15<sup>th</sup> and 16<sup>th</sup> century in Italy, way before the term social economy had even begun to be discussed. From the start, these two terms have been an enlargement to classical economics. The civil economy looked for a more well-mannered type of economy: well-being for everyone and common good alongside the usual economic goals like market share, increase productivity and being competitive (Genovesi, 1753).

In spite of this mentioned similarities in the early years of marshal civilizations and no matter how close some economical views got to social dimensions of economy; the classical view of economics was developed within the rationalist tradition of the 18th century. Economy was

based on the idea of man as a wholly atomized being whose economic behaviour is solely the product of rational choice, which was defined as maximizing benefit to one's self. Economic behaviour was conceived as somehow separate from the broader social and psychological conditions that help explain human behaviour in other areas. The idea was simple and it did not take into account crucial areas of human behaviour (Restakis, 2006).

In response to this disconnected and even anti-social view, the social economy came to mean an enlargement of classical economics to take into account the actual social conditions that accompany and indeed start the creation and distribution of wealth, and to situate economic behaviour within the wider view of social relations (Demoustier and Rousseliere, 2004). This social perspective had a direct bearing on the perception of capital, its proper function within society, and the perpetual conflict between private and social interests over its control.

Modern and more settling forms of social economy came by theorizing practical experiences inherited from the Middle Ages and Renaissance (Gueslin, 1987). The 19th century was, indeed, a formative century for the modern social economy, as it was characterised by an outburst of ideas, concepts, experiences, co-operative, associative or mutual aid practices, institutional and utopian initiatives in reaction to the social brutalities of the Industrial Revolution (poverty and exploitation), the emergence of the liberal philosophies and the actions taken by the state against the workers' movements or associations (Moulaert and Ailenei, 2005). During the second half of the century experimentation grew stronger with social actions in favour of the weakest segments of the population, such as industrial workers.

Over this evolving industrial 19<sup>th</sup> century, numerous co-operative and mutualistic initiatives arose in the West, even before they had received legal recognition (which would not arrive till the next century). 19th centuries worker associations were inspired by ideological movements that would have an impact on the entire evolution of the social economy. This movements thought would emphasise the political and ideological pluralism that would characterise the social economy from its origins to its modern form.

The main subjects behind the ideas that played a fundamental role were (Defourny and Develtere, 1997): 18<sup>th</sup> and 19<sup>th</sup> century "utopian socialism" (Owen, Fourier, Leroux, Saint-Simon, Proudhon), that promoted the values of co-operation and of mutual support; Christian socialism, that established the trend of facing the individual isolation and the absorption of individuals by the state; and the liberal movement, that favoured the mutual help associations by praising economic liberty and refusing state interference. These movements took place all across Europe and each of them contributed to the emergence of social economy, but none of them can call exclusive paternity to the idea. They all created a new theory behind a public and private system that would be further developed during the years (Moulaert and Ailenei, 2005).

Here a brief comment on what some of the mentioned utopian socialist did:

- *Robert Owen*: One of the most influential early 19<sup>th</sup> century advocates of utopian socialism. His "New Lanark Mills" in Lanarkshire, Scotland, with their social and industrial welfare programs, became a place of pilgrimage for statesmen and social reformers. He also gave

the first steps to co-operatives creating the first co-operative collective called “Village of Co-operation”. He also led the way to the Rochdale Experience that is known as the first successful co-operative experience. This experience created the Rochdale principles, of which the first two principals were those of Open Membership and Democratic Control, meaning that the co-operative was open to everyone and everyone had a vote in it.

(Dr.Bloy, History Home, 2016)

- *Charles Fourier*: French utopian socialist and philosopher. He worked on discovering the laws of social interaction. His goal was to create a community of people who would live in harmony and peace and a workplace which is enjoyable and satisfying

(Colaboraciones, regeneracion.libertario.org, 2013)

- *Henri de Saint-Simon*: He was a French social theorist and the founder of French socialism. In the wake of the French Revolution, Saint-Simon introduced a new and positive reorganization of society, controlled by the chiefs of industry, with scientists in the role of priests. The aim of this society would be to produce things useful to life, and peace would be assured by universal association. He ended up being a major influence in the 19<sup>th</sup> century socialism.

(Daniela Rodriguez, Lifeder, 2018).

These historical thinkers and their actions were roots of the social economy, though their work was utopian and their attempts to build a different community to the mainstream capitalist economy by the use of a co-operative model was a mere thought in most cases that led to no revolution at the time. In England, utopian socialism gave birth to many co-operative initiatives, where the community was considered the most appropriate body for achieving a harmonious society (Hardy, 1979). However, each of these initiatives is connected to the specific needs of communities, protecting or promoting particular social relations.

It was the work of these thinkers and social reformers that laid down the intellectual foundations of the earliest co-operatives which then became the organizational forms to which the term “social economy” was first applied by such economists as Charles Gide (1847-1932) and Léon Walras (1834-1910), and sociologists like Frédéric Le Play (1806-1882).

As a first appearance of the term. The term “*economie sociale*” was used for the first time in 1830 by the French economist Charles Dunoyer in a meaning close to the contemporary use. But it was the French sociologist Frederic Le Play who contributed significantly to the rise and consolidation of this concept in socioeconomic analysis. In 1856, he founded the “*Societe Internationale des Etudes Pratiques d’Economie Sociale*” and the “*Revue d’Economie Sociale*” and in 1867 he introduced the term “*economie sociale*” at the Universal Exhibition. In his text, he defines the social economy as:

*“the study of the situation of the working class and of its relations with other classes”*

(Le Play, 1856)

Thanks to Gide and Walras ,1886, the term social economy received complete recognition by the academies and institutions.

Gide defined social economy as:

*“The social economy . . . could be defined in the strict sense: the study of all efforts made to improve the condition of the people.”*

(Gide, 1886)

For Walras, the social economy covers state action (public), which must play an essential role as the regulator of the market’s excesses. Walras considered the conjugation of the (private) ‘interest’ (the market) and social justice (the task of the state) as a necessity. By his words the social economy could be understood as:

*“The science of the distribution of wealth according to social justice.”*

(Walras, 1896)

Walra’s work, “Études d’Économie Sociale: théorie de la répartition de la richesse sociale” (Studies in Social Economy: theory of the distribution of social wealth) marks a major break from original social economy marked the shape of today’s social economy.

We have to keep in mind that the social economy would gain strength in distinct moments of history were on the one hand, a reaction to the crisis of the mass-production system was needed and, on the other hand, responses to the overburdening welfare state. Those were times (such as 1929 economic “crack”) that classical economic distribution of wealth could not be met because of the huge social needs of the population. So, the work co-operatives and collective services were designed to meet the need to work in a different way, favouring ecological and co-operative production; with the goals was to establish a collective well-being in harder times and recreate social bonds and equality between the people within their communities (Defourny and Develtere, 1997).

So, not until the end of XIX century and the beginning of the XX Century would laws provide a legal framework for the organisational forms (co-operatives, mutual societies and non-profit organisations) that make up the modern social economy. However, capitalistic society still continued is reign till the second half of the century. In that moment they realised the market economy can’t face all the social need of the population, like full employment, social exclusion, agriculture development, health, education, attention to the elderly or sustainable growth. This is the context in which we took back interest for other ways of economic organizations that aren’t neither public nor capitalist.

The first attempt of identifying social economy has its origin in its own sector. The representative organizations of the associations, co-operatives and French mutual started to communicate with each other in the dawn of the 70s, when they realized they have common characteristics that need to be raised again the capitalist mode. Those businesses define themselves as “private organisms that manage companies with no lucrative purpose”. So just like this, in France began this concept of the economy by creating the “Committee National Liaison for Mutual, Co-operative and Associative Activities” (CNLAMCA, 1979).

So, from the 70s till now, social economy has been around us in a much representative way, as a complementation to the public and private sector. In the next chapter we will see how it is around us nowadays.

### 2.1.2 THE CONCEPT TODAY

To begin explaining what the term means to us today, we should start by explaining what “economy” is:

*“the system of trade and industry by which the wealth of a country is made and used”.*  
(Cambridge Dictionary)

If we wanted to go a little but further, we could also say that;

*“is the plural system of institutions and practices that organise the economical process of production, distribution, circulation and consumerism, to generate the basic material needs of our self-realization, needs and wishes, to live with dignity, liberty and in tune with nature.”*

We might as well describe what “social” means:

*“Relating to society and living together in an organized way.”*  
(Cambridge Dictionary)

We can also say:

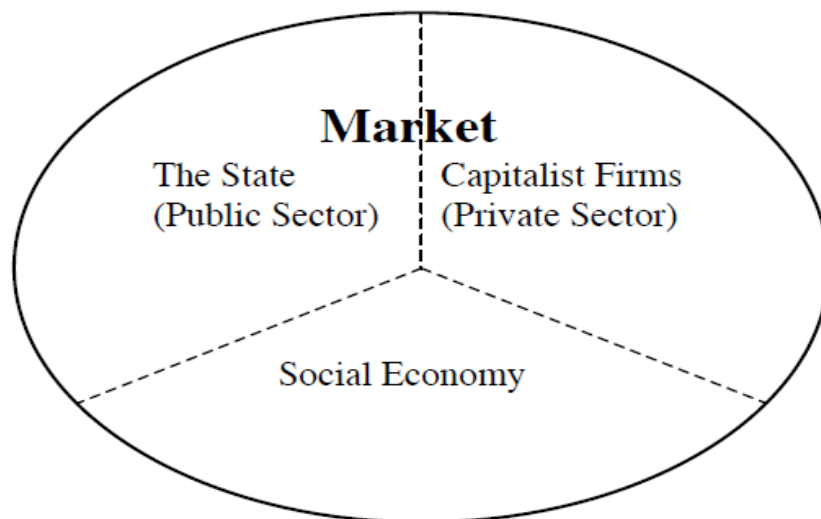
*“having to do with human beings living together as a group in a situation in which their dealings with one another affect their common welfare.”*  
(Your Dictionary)

Once we know the terminology of both words, we will look into the modern social economy:

*“The group of private companies formally organised, with liberty and accession autonomy, created to satisfy the needs of the partners through the market, producing goods and services, ensuring or financing and the eventual distribution of profits between partners as well as decision making process is not directly related to the capital or the amount of shares a partner has, each partner has a vote. However, there are also groups of private companies that with liberty and accession autonomy that produce services of no-market in favour of families that their economic position is not enough for such services.”*

(Monzón and Chaves, 2008)

Essentially, the social economy is made up of the voluntary, non-profit and co-operative sectors that are formally independent of the state. Their market activities are means of achieving social development goals that transcend the market per se. Thus defined, the social economy should be logically considered as a third sector:



SOURCE: Restakis, 2006

As I mentioned before, the modern way of seeing the Social Economy began in France when the co-operatives mutual and associations create the Committee National Liaison for Mutual, Co-operative and Associative Activities (CNLAMCA, 1979) in the 70s. After ten years, in 1980, the CNLAMCA publishes a document called "Charte de l'économie sociale" that defines Social Economy as:

*" a set of entities not belonging to the public sector which, with functioning and working democratically, with rights and work equality for the shareholders, they practice a special property regime and profit distribution, using what is exceeded to the enlargement of the entity and the improvement of the services for the partners and the society."*

(CNLAMCA, 1979)

The latest definition given in the "Letter of principles of the Social Economy" given in a European Conference by the European Economic and Social Committee, 2008, embraces the meeting point of Co-operatives, Mutual, Associations and Foundations by using 8 features:

- 1- The purpose of serving the members of the group, before than making profit.
- 2- Democratic decision making (except foundations). One person, one vote.
- 3- Giving more importance to people rather than to capital and rent sharing.
- 4- Voluntary and open joining.
- 5- Joining of the member's interests and general interest.
- 6- Defence and application of the principles of solidarity and responsibility.
- 7- Autonomy of management and independence from the public powers.
- 8- Objectives of sustainable development, on interest of member's services and general interest.

Although these are all the most defining features of social economy, we can specify some a little bit more:

- The autonomy in management distinguishes the social economy from the public sector (production of goods and services by governments). Indeed, public sector does not have the broad independence that this associations poses.
- Also, among mentioned features, democracy in the decision-making process is one of the most defining features of the social economy. “One person, one vote” and not “one share, one vote”, or at least to a strict limit on the number of votes per number in self-governing organizations. So, decisions won’t be related to the capital people of the organization owns.
- The fact that the objective of the social economy is to provide services to its members or to a wider community, and not serve as a tool in the service of capital investment, is particularly important. The generation of a surplus is therefore a means to providing a service, not the main driving force behind the economic activity.

These defining features has been speeded by the economic literature and they have separated the Social Economy into four principle families: co-operatives, mutuas associations and foundations (Monzón and Chaves, 2008):



	<b>ASSOCIATION</b>	<b>MUTUA</b>	<b>CO-OPERATIVE</b>
<b>ROLE</b>	Provides services to its members and/or to the wider community	Provides services to its members and family dependants	Provides goods and services to its members and, in certain circumstances, to the community at larger scale.
<b>PRODUCT TYPES AND BENEFITS</b>	Generally non-market goods and services, but also, of the market based type with increasing frequency. Depending on the implementation methods, which vary a great deal, both members and the community may take advantage of the goods and services.	Essentially non-market services. Members benefit from these services according to their needs.	Market goods and services. Each member benefits from these goods and services in proportion to the number of transactions he or she carries out with the co-operative (e.g. bonus for members using the services).
<b>MEMBERSHIP</b>	Private individuals or corporate entities	Private individuals only	Private individuals or corporate entities
<b>DIVISION POWER</b>	The principle of "one person, one vote" is applied at general assembly.	The principle of "one person, one vote" is applied at general meetings of the membership	The principle of "one person, one vote" is applied at general meetings of the membership
<b>FINANCING</b>	Dues and/or donations. When members resign, their dues are not reimbursed	Dues paid at regular intervals. When members resign, their dues are not reimbursed	Subscriptions to capital shares and/or contributions made at regular intervals. When members resign, they recover their financial contribution.
<b>DISTRIBUTION OF SURPLUS</b>	Never distributed to Members Must be reinvested in a socially useful way	Never distributed to Members May serve as a reserve fund and/or to lower dues and/or to increase benefits.	Partially refunded to Members May serve as a reserve fund to improve services or further develop co-operative activity

SOURCE: Defourny and Develtere, 1997

In the third sector that we are moving here, we should also mention the non-profit organizations, due to its social nature. Their main features would be the following:

- They have a formal or official character (they are institutionalised) which also implies that, generally speaking, they have a legal personality.
- Private, distinct from the state, not directly connected to the government.
- They are independent in the way that they must establish their own rules and decision-making authority.
- They are not allowed to distribute profits to their numbers or managers.
- Their activities must involve volunteers and donors, and membership must be voluntary. (Defourny and Develtere, 1997).

Knowing these features, we can find some similarities with the social economy: the formal framework is private in both cases, not attached to the government and both independent.

The main differences are the following: The social economy approach emphasises democratic process of decision-making, whereas we don't have this in non-profit organizations. Also, the prohibiting distribution of profits, excludes the entire co-operative view of the social economy, since co-operatives generally redistribute a share of the surplus to members.

## 2.2 CO-OPERATIVES

### 2.2.1 WHAT IS IT?

A co-operative, as we have already mentioned previously, is a managerial reality with a collective ownership and democratic management that tries to foster solidarity, participation and joint responsibility. The ownership is held by the partners and they rule the company. These partners can be either customers, workers or anyone connected to the co-operative in any way and among them, all have the same rights regarding the control of the company and profit sharing, although the wish of profit should not be a main objective for the partners (ICA, 1995).

Most definitions agree on the beneficial side of the organizations and that is referring to the fact that all activities must be focused on the satisfaction and economic/social needs of the members.

However, it must not be taken as a non-profitable organization, there are profits, only distributed differently in order to develop a competitive future. It is a company after all, and in the company's effectiveness lies the employment and economic and social needs of the members. Some successful and profitable co-operatives tend to forget about their members and their social identity. The fact that they are competing by the parameters of the market orientated economy is no excuse to forget it. The market economy will determine its competitiveness and efficiency, not its nature.

Jose Maria Ormaetxea, one of the main founders of Mondragon, explains it this way (Ormaetxea, 1998):

*“The immediate objective of the co-operativism hasn’t been creating big companies or sharing big amount of profits. It is true that it would be good that the profits are big, but not to enlarge our bank accounts, but to create new employment where men and women in a larger number could find a worthy job”*

But co-operatives have many principles that make them different and effective. They were agreed in 1994 in a conference in Oslo by the International Co-operative Alliance (ICA) and since then, they have been the standard principles (ICA, 1995; Chaves and Monzon, 2012):

- 1- VOLUNTARY AND OPEN MEMBERSHIP: “Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.” Voluntary, goes by the meaning of people choosing voluntarily to participate and to achieve shared goals, economical social or cultural. Open to all, by meaning anyone could join. In fact, the Rochdale Pioneers were ahead of their time by including women and all class of society as equal members of the co-operative.
- 2- DEMOCRATIC MEMBER CONTROL: “Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.” Is up to all member equally to decide what direction the co-operative goes, and who is the captain of the boat in each aspect or period of time, as the captain is accountable for its actions to the membership, at election time and throughout their mandate.
- 3- MEMBER ECONOMIC PARTICIPATION: “Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership.” Surpluses are not the objective of co-operatives. When they are, and are distributed in an equitable way in reserves and common services, a share of surplus to member would be reasonable.
- 4- AUTONOMY AND INDEPENDENCE: “Co-operatives are autonomous, self-help organisations controlled by their members. If they enter to agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.” This is for the relations with other enterprises and sectors. The co-operative must always keep their independence.
- 5- EDUCATION, TRAINING AND INFORMATION: “Co-operatives provide education and training for their members, elected representatives, managers, and employees so they

can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation." Is one of the original rules and is on the DNA. In fact, part of the surpluses should always go for education. This will always be for the best interest of a sustainable and successful co-operative.

- 6- COOPERATION AMONG CO-OPERATIVES: "Co-operatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures." By co-operative with other co-operative instead of with investor-owned businesses, the wealth will be better shared in the community, instead of concentrating in few people.
- 7- CONCERN FOR COMMUNITY: " Co-operatives work for the sustainable development of their communities through policies approved by their members." Is not only about the members but also for the well-being of the community they live in.

If these principles are followed, we would be talking about a co-operative. Co-operativism, though co-operative companies, is a doctrine and socio-political practise that promotes the cooperation among workers and has the objective of satisfying their needs.

## 2.2.2 MONDRAGON

Since we are studying co-operatives, we may want to look into the one we are about to study a little bit, the Mondragon Co-operative. We are talking about the biggest industrial company in the Basque Country which has made a huge economic impact in the area since the 40s. This will be important for when we study the EIKA Company, which is part of the co-operative.

In 1936, a priest named Don Jose Maria Arizmendiarieta joined the Basque military forces fighting Franco during the Civil War. He was captured, but due to a technicality, his life was spared. He arrived in Mondragon in 1941 after finishing seminary school, but his life took another direction due to his strong interest in social issues and movements.

The town of Mondragon with no more than 7000 people was hit by the post war poverty, hunger and overall strikes. The priest organized several social events to improve the town's mood with the church and the success of such activities led Arizmendiarieta to his first big project: the founding of a technical school in 1943. The school was helped by the Union Carrajera, and the school was used basically to form current workers children. By the refusal to open it up to more people, the school later organized itself as a co-operative, with each member (around 600) having the right to vote in the general assembly. The school board was elected and the school got renamed as Escuela Politecnica Profesional (Ormaetxea, 1998).

The school was essential to build the co-operative in the future not only for the technical skill learnt by the students, but also for the influences Jose Maria got in the students by imparting his social vision. He spent years educating people about humanism, solidarity and participation as well as the necessary technical knowledge for the co-operative. The school and the education

have always been and will be an essential part of the “experience”. The formation gave the young students all the skills they needed as well as a great insight in the social activities and an extraordinary level of maturity for the tasks they would be facing once their academic period ended.

In 1955 the father brought together the founders of the co-operative, five graduates of the school that started the first worker co-operative in Mondragon. It was first named “ULGOR”, that was composed by the first letter of each founder: Usatorre, Larrañaga, Gorroñoitia, Ormaechea and Ortubay. The company they would later on be known as “Fagor Etxetresna Elektrikoak”. The work they made is extraordinary, they studied, worked, and gave life to Jose Maria’s ideas (Loyola – Idiakez, 2018).

In 1959 “Caja Laboral” was created as a first secondary co-operative in the union. Jose Maria Arizmendiarieta proposed the idea of a creation of a financial entity that promote the collection of popular savings and canalize those resources to the co-operative development. He thought that private banks would undetermined the community they were trying to build, and a financial entity of their own was needed, and so it was built. They acquired capital for financing projects by providing both savings deposit accounts for members and social security (paid for with member payroll deductions). This decision was a great deal in the years to come.

“Lagun-Aro” was also created in 1959 with the objective of resolving the problem created to co-operatives of denying the right of enlisting of the state’s social security system. So, they covered that problem creating “Lagun-Aro”, but also turned out to be a great learning company that has led the way till actual times (Loyola – Idiakez, 2018).

It is also worth mentioning the creation of “Eroski” in the late 60s. In 1969, the distribution company was formed out of 9 little local co-operatives. It wasn’t big at the beginning, but it gained big weight in the years to come.

Many co-operatives created within Mondragon are mentionable, but we can sum al the important events in the following chart:

## Trajectory of Mondragon Co-operative:

### **0. STEP (1943)**

Creation of the technical school

### **1. STEP (From 1956)**

First co-operatives: Ulgor, Arrasate, Copreci, Ederlan...

### **2. STEP (1959)**

The creation of the first financial entity "Euskadiko Kutxa" (Caja Laboral)

### **3. STEP (From the end of the 60s forward)**

Creation of the co-operative coverage: Ikerlan, Lagun Aro, Lankide Export

### **4. STEP (1968)**

The creation of Auzolagun the first co-operative formed by women

### **5. STEP ( from 1964 on)**

Development of the groups in the area: ULARCO, GOILAN...

### **6. STEP (1970)**

Eroski was formed (starting from the San Jose Kontsumo co-operative)

### **7. STEP (1987-89)**

General assemblies of co-operative I and II

Creation of the Mondragon co-operative group

### **8. STEP (1989)**

The group Fagor bought Fabrelec S.A. eta Victorio Luzuriaga S.A.

Coprecik created the first subsidiary in Mexico

### **9. STEP (from 1991 on)**

The creation of MCC cooperative

MCC Investment also created

### **10. STEP (From 1995tik on)**

International corporative strategic plan

Expansion to more international markets

### **11. STEP (1997)**

Mondragon University

### **12. STEP (2001)**

"Garai innovation centre" created

SOURCE: Errasti, 2002

The growth and success of the co-operative is undeniable: Beginning in 1956 with five former students of the polytechnic school and the equivalent of 350,000 dollars, the Mondragon Complex had grown by 2008 to include 243 companies, holding 33.5 billion euros in assets, 16.7 billion in revenue, and employ 92,773 individuals. By that same year, the “Caja Laboral” (the bank) administered just fewer than 14 billion euros, and the complex was operating twelve technology centres, and 7,311 students were enrolled in Mondragon educational centres, while 891 worker-owners were sitting on governing bodies. Is the number 1 company in the Basque community and the 10<sup>th</sup> in Spain.

By today, the co-operative has gone in many ways and has companies that cover many branches in the market. They are grouped in 4 groups: (Ormaetxea, 1998).

- *Finance group*: To enforce the financial structure of the co-operative, “Euskadiko Kutxa” (Caja Laboral) was created (the saving bank for the employees). “Lagun Aro” is also part of the financial group of the co-operative and it was created for the financial safety of the co-operatives and to secure the second level social surges created.
- *Industry group*: Is the biggest brunch. Mondragon produces many different products, in many different industrial aspects as well. The group employs many professionals formed by the co-operative which are highly competitive in the market. Among the companies we can find “Fagor”, “Orbea”, “Ulma” and EIKA.
- *Distribution group*: Mostly formed by Eroski and Consumer companies, although “Eroski” is one of the most important distribution teams of Spain. Besides, it is building up relationships with “Les Mousquetaires” French group and “Edeka” German leader. “Eroski” was founded in 1969 and by now it employs over 36000 people.
- *Knowledge group*: It is separated in 2 divisions, training and innovation. Inside training is located the “Mondragon University”, “Lea Artibai Ikastetxea”, all in their respective area. Regarding innovation, Mondragon Corporation owns 3 technological centres, 12 units that take care of the research and development and due to the cooperation between those centres, new business opportunities come up usually.

Years have passed by and the co-operative has done nothing but grown, readjusting to new environment and ages. The connection and coordination between groups and co-operatives has made the whole group very powerful. And just like that, after years of work and development, Mondragon has become one of the most powerful entities in Spain.

The development of the co-operative has shown the compromise they made, and the achievements they got since the beginning of their existence have proven them right. It has been a passionate road that began more than a half century ago, based on the participation, shared effort, solidary work, technological innovation and the solidary implication with their environment among many other qualities have made them what they are, and they will keep developing in the years to come (Cancelo, 1999).

## 3. BUSINESS INTERNATIONALIZATION

### 3.1 GLOBALIZATION

Since the 70<sup>th</sup> century, the cultural, economic, political and most of all, the technological changes, created a whole new socioeconomic environment and made huge impact on the way the companies organised themselves. This led to the term “Globalization” which would refer to many things, but in our perspective would be the growing importance it had at the time the international trade and economic relations countries and companies began to set between them. Globalization made the world way more accessible for everyone, and regarding business, growth took a new whole meaning. Companies started to grow faster and easier outside the domestic market.

Globalization has created a market where everybody can be part of, but this required many regulations from the pre-globalization heterogeneous structures of economy with little interaction internationally.

The structure of the global economy today is comprised of the following under-systems (Paliu-Popa, 2008):

- The economies and national states.
- The international division of labor.
- The system of international economic relations.
- The world markets.
- The economic world circuit, including the mechanisms of development of its flows (mechanism of trade, price, monetary, financial).
- The institutional system of international economic relations, the economic organizations international bodies.
- The legal system which includes principles, rules and regulations of economic relations between countries.

By now, new technologies have gone so far, that people or companies can do business instantly even if they are in opposite sides of the world. This has led to new relations between different countries and nowadays is in another level with the integration of Europe, Asia and America. The autoregulation of these international markets has also been an important part of the globalization.

The internalization of companies has eliminated certain barriers in the world and the exchange of goods (material, products or services), financial assets and people (work units) is very accessible in the majority of the cases. However, the capital flow is the most common of them. Most of the goods and services are already widespread and the people flow is more due to special knowledge or ability is needed. Also, this can't happen due to the strict law governments



apply on that. If not, the flow of people moving from south to north would be huge, which would mostly be because of the differences in the salaries and lifestyle (Wach, 2014).

## 3.2 INTERNATIONALIZATION

Companies decide to engage global business and enter international markets for a variety of reasons, and these different objectives at the time of entry should produce different strategies and performance goals. However, companies often follow a standard market entry and development strategy. The most common is sometimes referred to as the “increasing commitment” method of market development, in which market entry is done via an independent local partner. As business and confidence grows, a switch to a directly controlled subsidiary is often enacted. This internationalization approach results from a desire to build a business in the country market as quickly as possible and by an initial desire to minimize risk coupled with the need to learn about the country and market from a low base of knowledge.

But for companies that are starting the internationalization, the process can be slow. The knowledge a company has gained over the years operating in the domestic market, has given them an edge to compete on their own way. That way works in the domestic market and in some ways can be brought to the new market (depending the nature of the new country, of course).

The new market will make the company adjust to it because becoming globalized forces the company to gain new knowledge. The use of the knowledge from the domestic market will depend of the similarities between the two countries. If they are not similar, the company is forced to adjust to the new environment as quick as possible, by understanding it and learning from it.

The process of learning can and will bring a cost to the company. That cost is called the learning cost. Beginning in a new market is always an investment, but the cost of adjusting to it and learning how to behave on it should be covered by the profits of operating in the country.

The following points will give us insight on why internationalization is the obvious choice for many companies and how they can deal with by creating an international strategy (Madhok, 1997).

### 3.2.1 REASONS

Going international seems like the obvious choice nowadays for many different reasons. If you stay in the domestic market, you can succeed of course, but the nature of companies is always to grow and in this global market, the competition comes for everywhere now, so growing internationally has more sense than ever.

Regardless that is a pretty good choice, these are the following reasons to internationalise a company (Biggs, 2013):

1. *Increase sales*: If your business is going good in your home country, expanding globally will likely keep it up and improve the overall sales and revenue. Taking the Basque Country as home country, 99.9% of the global population lives outside and the languages are completely different – this suggests customers are global and that if your company looks beyond the shores of the domestic market, you have some real potential. If the company has a special product or technological advantage not yet seen internationally then this advantage should turn out to be a major business success abroad. Sometimes the key is where or to whom and you will increase your sales easily.
2. *Improve profits*: If sales go up, so will the profits (usually). Moreover, if the product sold is rare in the new market, the price asked can be higher as well.
3. *Short-term security*: Your business will be less vulnerable to periodic downturns in the domestic economy and marketplace. It can be a great deal if local economy goes down. We would not only depend on our community's economic health then.
4. *Long-term security*: Local markets, whatever is their capacity, are limited. Our Basque or Spanish markets are mature with no huge rises ahead and intense competition already from domestic and foreign competitors. In order to avoid extra production, the smart move in the long term is try and find new markets where we can operate.
5. *Increase innovation*: Increasing clients, increases profits and we can invest it on innovation, which eventually can be used against competitors.
6. *Exclusivity*: By going to certain markets, the company get to know the market's environment and customer's behaviour that other do not know about yet. That kind of information gives the management an edge to compete, and can lead to get exclusivity in those markets.
7. *Economies of scale*: It's simple, expanding will enable you to produce more units. The more units you produce the lower you're per unit cost. This can increase your profit margins, but you can only get the best of this through selling to more customers, which can only come through expanding to more countries. This is especially important to for those companies that only operate in small markets. They will see their margin grow by doing simply more of the same.
8. *Education*: In some cases, if the conditions are right, a company can decide to go to an international market not only for financial goals, but also educational goals. By doing this, it might enable you to learn from an extremely competitive market and strengthen yourself by facing such tough competition. Eventually, the company will have learnt through the hard way, skills they may never learn other ways.
9. *Competitive Strike*: Market entry can be motivated not by the positive characteristics of the country identified in a market research project, but as a response to a competitors' moves. A normal case is market entry as a follower move, where a company enters the market because a major competitor has done so. This is clearly done because they think the enemy will gain power and strength if it operates alone in the new profitable market,

so they follow to not fall behind, and face worse consequences. Of course, this must not be done at any price, always if the company will be able to face it.

Another frequent scenario is “offense as defence,” in which a company enters the home market of a competitor—usually in advance for an earlier entry into its own domestic market. In this case, the objective is also to force the competitor to allocate increased resources to an intensified level of competition.

10. *Government Incentives:* Just because they are given money. Many governments give incentives to the companies that decide to export goods, so companies can decide to do so if the price tag is exquisite enough.

International markets evolve very quickly. This leads to many different reasons to go abroad that might end up in a collage of different operations in many different places. In addition, the way of entering the markets will differ as well due to the necessities the country may require and will follow the learning process and cost mentioned before.

### 3.3 RESEARCH FOR THE INTERNATIONAL ENVIRONMENT

The way the company decides to develop internationally, will depend on the changing conditions during the process, and of course, on the detected threats and opportunities in the outside market. This will make the adjustment process, the learning curve, learning cost and the speed different in all the cases.

Therefore, internationalization as it is (Villarreal, 2005):

- Has characteristics of a process that is complex, dynamic and evolutionary - The skills asked are specialized.
- The nature of international environment is uncertain.
- The level of the unknown factors can be high.

All this makes the formulation of the strategy a very important process that will determine the long-term development of the company.

Internationalization, as an economic phenomenon and business strategy, the concepts can be complex and with many different analytic views and that is why the strategic management studies have created many different ways of dealing with the creation of the perfect strategy. The one I will introduce now will help us understand every step of the internationalization process by ten different procedures.

Each step will have to be strategically coherent from one to another and that is why we need to learn as much as we can from ourselves and from our new environment first.

The following table will show us the basic steps for an international strategy formulation:

I-STRATEGIC MODEL OF BUSINESS INTERNATIONALIZATION: GENERAL SCHEME

A) EXTERNAL ANALYSIS:

- i) **General environment** (Home and foreign) | Where, headed to?
- ii) **Special environment** (Functioning sector) | Why?  
Which sector?

B) INTERNAL ANALYSIS:

- i) resource and ability theory
- For what?
- By what?

A + B → SWOT ANALYSIS

- What could we do? | Is it possible?
- | Is it needed?

II- INTERNATIONALIZATION OBJECTIVE SYSTEM

a) Company's mission and view:

- VALUES | What do we want?
- CULTURE | Why?
- IDENTITY

b) OBJECTIVES TO ACHIEVE:

- PROFITABLE | What do we want?
- LEVELED GROWTH | CONTROLABLE | How much?
- | DURABLE | When?

III- INTERNATIONALIZATION STRATEGY

How?

1- POSITIONING STRATEGY

Where are we getting? Where are we going?

2- POSITIONING STRATEGY

Where are we getting?

3- GROWTH STRATEGY

Are we inventing or buying?

4- COEXISTENCE STRATEGY

Who are we going to do it with?

5- CORPORATION STRATEGY:

Which business unit will be internationalised?

6- PENETRATION STRATEGY:

Which process of the value chain will we internationalise?

7- COMPETING STRATEGY

Which is our edge to compete?

8- STRUCTURE STRATEGY

How will ge be organised internationally?

9- VIEWPOINT STRATEGY

How do we get outside views?

10- SEQUENCE STRATEGY

How fast will we do it?

SOURCE: Villareal, 2011

We need to define the environment the company will face. For that, we will research and evaluate the inside and the outside of the company. On the *external analysis* we will research the country we want to settle in (but always with our domestic market as a reference), and the sector we are operating in. Regarding the *internal analysis*, we will evaluate ourselves by finding out what we can offer, but in the same time what are our weaknesses.

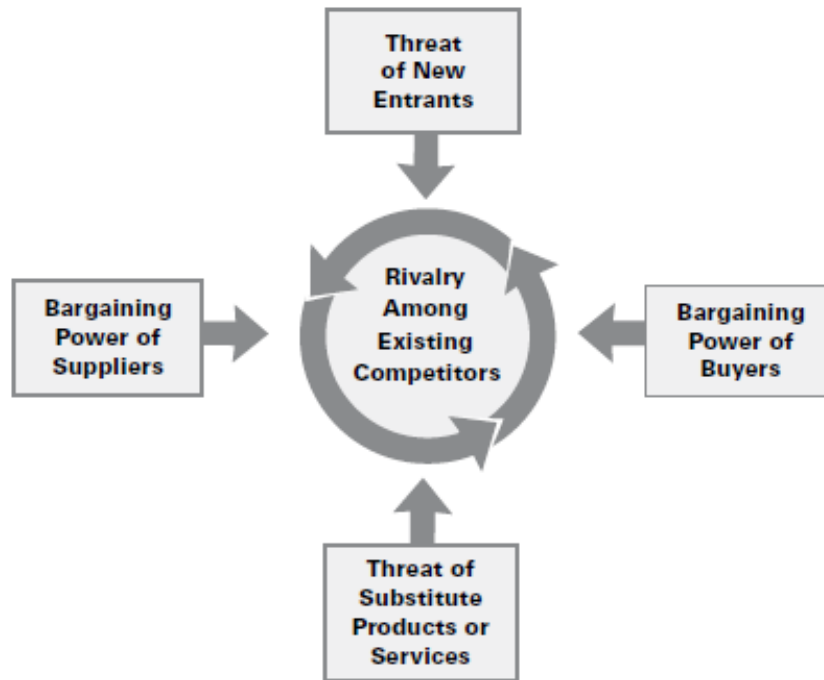
### 3.3.1 EXTERNAL ANALYSIS

**GENERAL ENVIRONMENT:** We have to take the view from our home environment and research the new country. To do so, the most common way is to use PESTE research.

- Political and Legal factors: It refers to the research of laws and all related to the government of the country. This will put the limits of the company by taxes, economic policies, employer's rights... (Rugman and Verbeke, 1998)
- Economic factors: Read the most common economic indicators: economic growth, interest-rate, unemployment-rate, Gross Domestic Product (GDP), inflation, exchange rates... (Diez de Castro and Mascareñas, 1994)
- Sociocultural factors: Education factors, demographics, religion, ethnicity, customs in the country, ethical values... (Trompenaars and Hamoden-Turner, 1999)
- Technological factors: How advanced is the country in technology, their investments in R+D, patents...
- Ecological factors: environment and all related with its preservation (laws, energy-policies, trash handling policies...)

**SPECIAL ENVIRONMENT:** This consist on knowing our sector; the group of companies that do the same activity that we do, a well define product, group of products or services. To do so, Michael Porter (1980) defined 5 competing forces that we have to look into.

Porter thought that the competitiveness in a sector would define the chances of profitability on the sector in the medium long term. The competition will be defined by the 5 forces he created, because each one of the forces represent part of the profitability in the sector.



SOURCE: Porter, 1980

1- THREAT OF ENTRY: New entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete. This is negative because the competition gets fiercer and profitability goes down because:

- Supply goes up.
- Prices go down.

There is a higher demand of raw material for the product so besides that the bargaining power of suppliers is higher now, the demand of the raw materials is higher now and the prices go up.

So, production is more expensive and our selling price is lower now. Profitability is compromised.

To know what the threat of entry in a sector is, it will depend on the profitability of the sector. If profitability rises, so does the treat. However, it depends also in two other factors:

- Entry barriers: Entry barriers are advantages that already operating companies have relative to new entrants. There are seven major sources:
  - Economies of Scale: If many businesses have this advantage, the new ones have to at least enter the market with the same size, or get the production to the same cost to get competitive prices.
  - Differentiation level of the product: If the products on the market have its own style or differentiation from each other, it means that the customers

have deeper connections to the products in the market. This leads in a harder way to get customer for a beginner.

- Capital needs: In some sectors, the investment needed to start is higher than in others. That initial investment can hold back new competitor. But careful, if the profitability is proved to be high, getting financed shouldn't be that hard.
- Costs for changing the supplier: If one of our usual customers (we are their supplier) decided that they wanted to give us up, the cost of breaking the production chain like that is usually pretty high. The newcomer they are changing to must offer more than a tasty price to go into that trouble.
- Unequal access to distribution channels: To distribute new products in a market, the beginner must find a new one how accepts him. Usually they are full of other products, so they have to offer the distributors some advantages (promotions, payment advantages...) for them in order to find a place.
- Another disadvantages in costs: in many sectors factors that will lead in a higher cost, such as, patent rights, difficulties to get raw materials, the right geographical position or experience curve will suppose a higher expenditure.
- Legal barriers: Sometimes law itself is a barrier to enter a sector due to the limitations it may have. Regulated industries like liquor retailing, taxi services, and Airlines are visible examples.
- Response from other companies from the sector: Depending what position the eldest companies take when one is trying to get in the market, it may be a problem for the new ones or not. We will have to look at: Past responses, power of actual companies, the level of specialization, and growth rate (Harvard Business Review, 2008; Porter 1980).

2- POWER OF SUPPLIERS: The powers of supplier or buyers will determine a big part of the profitability of the sector.

Powerful suppliers capture more of the value for themselves by charging higher prices, limiting quality or services, or shifting costs to industry participants. Companies depend on a wide range of different supplier groups for inputs. A supplier group is powerful if:

- It is more concentrated than the industry it sells to. Being concentrated means that few companies own the whole market share. For example, with the operating systems in mobile phones or computers.
- The suppliers do not depend on our sector. They supply to other sectors as well so we are just part of their business and not an essential one. That gives them the edge to negotiate because they do not only rely on us.
- High cost of changing suppliers. This usually leads to a restructuration in a company if they have made a previous effort on learning how to operate with the supplier's

equipment or there is any kind of specialization. I can also be an advantage for the supplier if we made an effort to have the facilities close to theirs. If they realise, we made all that effort, they know the power is theirs.

- Suppliers offer products that are differentiated. That will give them advantage because we probably need what they offer because is especially what we need.
- The supplier group can threaten to integrate forward into the industry. This happens when the suppliers see that the industry is making money out of them, and think they can eliminate the buyer from the chain. If they threat to do so, they have advantage negotiating (Harvard Business Review, 2008; Porter 1980).

3- THE POWER OF BUYERS: Powerful customers—the flip side of powerful suppliers—can capture more value by forcing down prices, demanding better quality or more service (thereby driving up costs). This is basically the same with suppliers but the other way around:

- Few, buyers. Concentrated. They have the power.
- Products are standard. All offer the same, so they have the power to negotiate and choose.
- Buyers do not face high cost on switching us.
- Possibility of integrating backwards and create the product themselves.

4- THREAT OF SUBSTITUTES: A substitute performs the same or a similar function as an industry's product by a different means. For example, video conferencing is a substitute for travel; plastic is a substitute for aluminium and e-mail is a substitute for express mail.

When the threat for substitutes is high in a product, industry profitability suffers. The substitutes lower the profit potential by setting a price ceiling in the industry (Harvard Business Review, 2008; Porter 1980).

5- RIVALRY AMONG EXISTING COMPETITORS: Rivalry among existing competitors takes many familiar forms, including price discounting, new product introductions, advertising campaigns, and service improvements. High rivalry limits the profitability of an industry. This is already saturated, no profitability for a new one. The intensity of rivalry is greatest if:

- Competitors are numerous, the sector is not concentrated which leads to a lot of companies with similar market share. In such situations, rivals find it hard to avoid fierce business. Without an industry leader, companies will try to do anything in their hand to get the leadership.
- Industry growth is slow. Slow growth causes fights for market share.
- Exit barriers are high. Difficulties to leave the industry will always make the competition fiercer due to the losses companies would have to face if they went broke. So, they will keep in production even if the profits are very low or even null. This factor is the sign of high exit barriers: specialized activities, lots of firing compensations, strategic relationships, government incentives...



- High fixed cost: The companies always have to at least cover the fixed cost. But if this is high (especially in industrial services) the competition to at least break it even is high.
- Product differentiation: If the products in a sector are not very differentiated, the fight will be stronger of course.

Once finished with PORTER's forces, we have to identify the ones that shape the competition in the market (not all mentioned have to appear), but without thinking what the changes in the future can be. This is how we will know if the sector is attractive to us in the country we want to move into.

But if it is attractive, that won't mean we are capable of stepping in yet. This is why we will make an inside analysis and find our weaknesses and strengths (Villarreal, 2008).

### 3.3.2 INTERNAL ANALYSIS

This consist on evaluating the company, its characteristics, strengths and weaknesses. The most common way to evaluate the company is the resource and ability theory (Grant, 1991).

A company, is an organized group of heterogeneous resources and abilities, such as, technology, assets, people, skills, knowledge... that during time is created, developed and improved. *Resources* are the group of assets that a company control. They can be either touchable or untouchable:

- Touchable resources could be physical or financial such as, buildings, equipment, vehicles, financial resources...
- Untouchable resources are based on information. They are separated in 3 groups:
  - Human resources: Qualifications, loyalty, their knowledge...
  - Technological resources: Patents, experience applying a technology, know-how...
  - Trade resources: brand ownership, fame or image, fidelity, good relations with suppliers or customers...

*Abilities* are created by managing and integrating the different resources the company owns, so they are a fruit of management of resources and learning. An ability in the end will be a certain specific activity that the company does in its own way. Internal analysis consists on knowing every resource and ability we've got and the creating the best strategy taking into consideration what we learnt about our environment previously.

### 3.3.3 SWOT ANALYSIS

With all of that in mind we will create a SWOT analysis and set how we will find the edge to compete in the new market.

We will write all the important data we have collected in our research and start working in our strategies.



SOURCE: Wikipedia

### 3.4 FORMULATION OF THE INTERNATIONAL STRATEGY

Once all the research is done and evaluated, we would follow 10 steps to create the best international strategy for the company (Vilareal, 2008):

- 1- **POSITIONING STRATEGY:** It consist on choosing where to locate the new headquarters, or simply deciding where to do business exactly. The question to answer will be "Where will we go?". This decision is directly connected to the environment research, so whatever PESTE and SWOT shows us where would be the best to locate in order to get our advantage for competing.
- 2- **ENTERING AND STAYING STRATEGY:** This involves the way we want to enter the market (entering strategy) and how we can enforce ourselves once in it (staying strategy). Time is an important factor this time around. The questions to answer are "How will we get in?" and "How will we settle down?". In this area we can differ in 3 methods.  
First of all, exports. It can be directly or crossed, by having a mediator in the new country at first. The production will remain in the domestic country and the supply will always come from there. This way, only goods and services go abroad, and resources are not in danger. Risk is minimum. Then, we could start investing abroad by offering services abroad and became a multinational. Last, would be the production directly abroad. The whole process is abroad, and intellectual property or resources also move abroad for wider advantage while competing. This also led to major risks but also flexibility for the company to react to the environment.
- 3- **GROWTH STRATEGY:** Growth could happen by expanding the business internationally or by buying a company already settled there. So "Will we create the growth or buy it?". Inside growth will mean creating everything by ourselves, and get bigger. By buying we acquire everything with the investment. Faster but more expensive usually.
- 4- **COEXISTENCE STRATEGY:** You can either be alone internationally or working with a partnership agreement. In that case we would be using an alliance strategy and it takes shape with a contract. There are many options: Licences, franchises, under contracts,

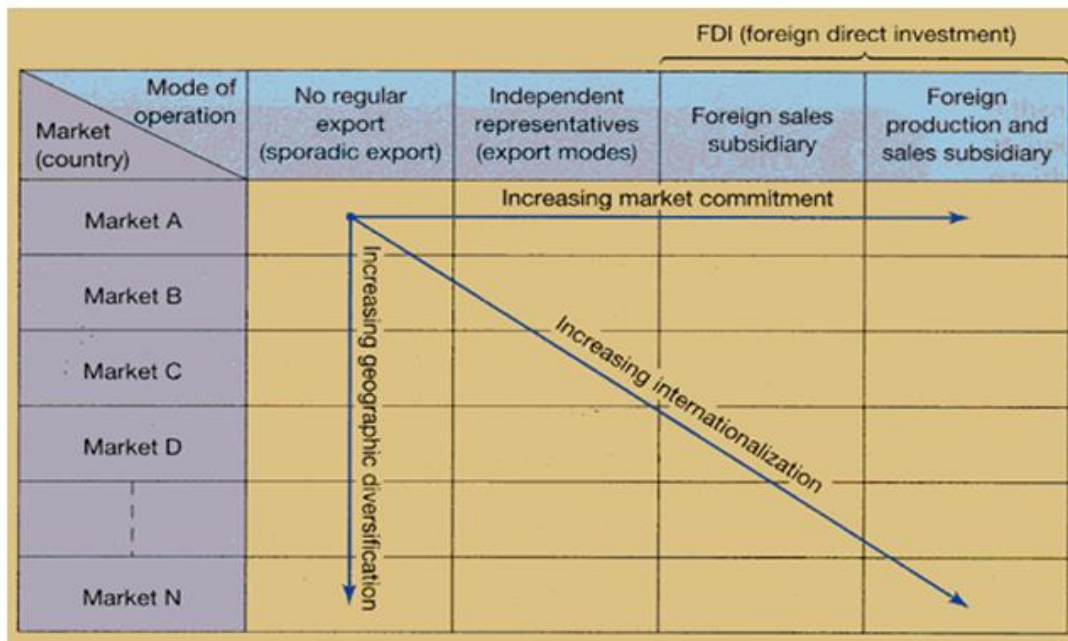
- holdings... Is usually a “win-win” for both companies, they share risks, materials, and management issues. The question we need to answer in this area is “Who will we go with?”.
- 5- CORPORATION STRATEGY: The Company has to choose what their specialization level will be. In a new country, the Strategic Business Units may be changed, due to new market needs. We won't have to focus on our current SBU-s because the segments in the new market may differ from the domestic ones. Also, the life cycle of a product or the position a business has in the market may affect our specialization needs. We should try to get as many synergies as we could. “Which business unit will be internationalised?”
  - 6- PENETRATION STRATEGY: The Company can become a piece of the production chain in the market (usually by exporting to the market) or go with integrating most or all of the processes in the chain. “Which activity in the value chain will we internationalize?”
  - 7- COMPETING STRATEGY: It consist on finding out how are we going to get the edge to compete. In this area usually we could go for the main two competitive advantages: Cost leadership (scale economies and standardization) or differentiation (what can we offer different in this area). “What is the competitive advantage abroad?”.
  - 8- STRUCTURE STRATEGY: The main focus will be to create a structure so we can face all the international activities. There are the options in general: the usual structure with little changes, change according to product or geography, boss-subsidiary structure, virtual... The questions are “How will we decide?” and “How will we control it?”.
  - 9- VIEWPOINT STRATEGY: Depending on the pressure we might suffer by the competing sector; our viewpoint will differ. Most used are global integration (coordinate all the different processes and lower the costs with scales and standardization) and local adaptation (adapt to consumers, government...). But really it takes more viewpoints: global, a variety of markets, exporting...
  - 10- SEQUENCE STRATEGY: It is related with the speed and intensity of the internationalization. There are two options:
    - 1- Sequence strategy: Is accepting the evolving nature of internationalization phenomenon, by levelled phase's process during a pretty long time.
    - 2- Simultaneous strategy: This is a fast internationalization. This is a business that is created directly with the international spirit. Is like starting the company over internationally.

“What is the rhythm of the internationalization process?”.

These are the 10 strategies a business should prepare if going international. There always must be coordination a coherence between the strategies. (Villarreal, 2008).

### 3.5 WAYS AND STEPS FOR INTERNATIONALIZATION

The strategies and questions mentioned above are important to apply them during a long and extended process. The questions discussed in the second and last points, “How will we get in?”, “How will we settle down?”, “What is the rhythm of the internationalization process?” are discussed in the theory of Uppsala school by Johanson and Wiedersheim (1975) and Johanson and Vahlne (1977) while the company gets more and more experienced in the international market, the bigger will be the commitment to it.



SOURCE: Zohari, 2008

That process can be done in the following way, but is not necessarily has to be that way either, but it would be the rational order to do it (Zohari, 2008):

- *1st STEP; Passive exports:* It consists on answering unusual demand from abroad. This is casual export, not in our plans. We could call this the *occasional exporters*.
- *2nd STEP; Beginning of active exports:* In this step the company decides to go actively to new markets in order to take advantage of the opportunities in there. The company now has decided on its own to do business abroad, taking into account the advantages of doing so that we locked into in previous chapters. Even though the company has done business abroad, this would be the beginning of the international policies and strategies because it has decided to do it actively. With analysis in hand, the company will find the most suitable country market for business having culture, economy and politics in mind. Still, domestic trade will be the most important in this phase. The production is for the domestic market, but the leftover will be sent to the international market. We could call these *active exports* because exports are something they count on already.

- *3<sup>rd</sup> STEP; Strengthen of exports:* As the export numbers go up, the company is settling down on the new market as well. Without forgetting the domestic market it is already operating in, the company can consider new horizons to strengthen the exports and take advantage of a wider production incentives (scale mostly). Furthermore, it can commit to the actual market by increasing the sales. In this moment we should try to find mediators (agents, distributors...) in the markets to get bigger sales and control of the goods. Also is a good moment to start considering other, more active ways to get into the markets. This kind of activities make the companies *compromised exporters*.
- *4<sup>rd</sup> STEP; Trade subsidiary or opening a branch:* This requires a lot of financing and human resources. So, to get to this step is needed to be well fixed in the new country. This way, the company will still have a wide range of agents and distributors, but in his most demanding countries will have a brunch to carry on the management processes. The decision-making process and management of the whole company will be tougher from that moment on.
- *5<sup>th</sup> STEP; Production subsidiary or opening a branch:* This is the last step in the internationalization process. The most important multinationals arrive till this step. The compromise towards the internationalization will be maximum by opening factories or production centres in the key countries. Investment is so big, that only really big companies can afford to get this far. Once in this point, companies have different choices to enter the market: licences, joint-ventures, production licences... Coordination will be essential, so does control of all new activities, in fact, the companies now puts in the same level the domestic market, and the foreign market. (Zohari, 2008).

DOMESTIC PRODUCER	1 -Passive exports, casual, not planed.		
→			
	2 - Active exports: Engage in actual wish to sell abroad. actions.		
	3- Compromised exporters: Mediator get involved in getting more sales.		
		4- Investments abroad: Branch and more expenditures to carry on sales	
→			
	5- Big investment, totally compromised in the foreign market by integrating production and activities towards the global market.		INTERNAZIONALIZED PRODUCER

SOURCE: Self-made

Once we have evaluated the process, we also need to learn what ways the companies have to get into the global world.

Before starting the internationalization, companies must take into account that there are many different ways to do it. For example, they could decide whether to still operate in the home country (exports) or fully engage to go international by opening facilities there (or something in between). If so, how is the company going to do it is also to be decided. The strategies above should cover all of this up, but we will look a little further on the steps and options we have to go international:

<p>A) EXPORTS</p> <ul style="list-style-type: none"> <li>• Crossed exports <ul style="list-style-type: none"> <li>International commercial agents</li> <li>Trading company</li> <li>“Inport-export” companies</li> <li>Piggyback</li> </ul> </li> <li>• Active exports <ul style="list-style-type: none"> <li>Active sales</li> <li>Agents and distributors</li> <li>Sales replacements</li> <li>Office replacements</li> <li>Export committees</li> </ul> </li> </ul>	<p>B) AGREEMENTS AND LICENCES</p> <ul style="list-style-type: none"> <li>• Franchises</li> <li>• Licences</li> <li>• Subcontracts</li> <li>• Consortium</li> <li>• Key in hand</li> <li>• Handing contract</li> </ul>	<p>C) DIRECT FOREING INVESTENT</p> <ul style="list-style-type: none"> <li>• Joint Venture</li> <li>• Opening a Subsidiary</li> <li>• Buying a local Company</li> </ul>
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SOURCE: Self-made

A) EXPORTS: Is the cheapest and less risky way to go abroad, and this is because only the product go abroad and nothing else (no capital, no human resources...). This also means that the control in the outside markets is very limited, if any. Two ways:

- Crossed exports: All the trade is done by outside agents in the new market(s), so we barely even notice there is new business going on. It is also called “home sale” for that reason. The job is to find distributors and distribution channels in the foreign market, product communication, physical product distribution... All is done by the other company, and that company will have all that is needed in the foreign markets. Payment will be trough commissions or margins (trade.ready, 2017). We have the following options:
  - *International commercial agents* (independent agents): They deal with the trade functions of the company abroad (sales, communication...). The company still owns the products, so the other one just tries to sell them so they have commissions. They work for many companies; they are not exclusive.
  - *Trading company*: In this case the distribution company buys the product and they deal with the exports on their own. It is important to choose well these distributors because by their service and the way they use their product

abroad, they may get an image that does not interest to the company. The choice has to be coherent with the identity and strategies of the company.

- *“Inport-export” companies*: These are specialized companies that deal with all kind of products. If our product has specialized nature will be a good option.
- *Piggyback*: It consist on using the distribution channels abroad of another company of your own country, for your own product. The product must not compete with each other, better if the complement each other. We would pay to integrate our product to the channels of the one that is more settled in the outside market.
- **Active exports**: The Company itself tries actively to sell outside the domestic market although it might hire another company to deal with it. Its marketing and sales departments will work on it. The relations with the exterior and the commitment in the management is real now. The profits should be higher this time but also the commitment to it. Also, the control is bigger, and we get direct information from the market. So, if companies decide to engage in this they will learn in a direct way about the international environment (export.gov, 2016).
  - *Direct sales*: The Company does everything by itself, it does not hire another agent to deal with anything. Direct contact with customers.
  - *Agents and distributors*: They do the company’s trade functions (sales, communication...). The owner of the product will still be the company, and they pay via commissions.
  - *Sales replacements*: One of the company’s employees is responsible of representing the company abroad. This representative is who will control all the international arrangements.
  - *Office replacement*: Instead of one employee, the company goes for an office in the new market and it coordinates all the distribution and sales. It usually for a short time until they see viable the inversion made in the country.
  - *Export committees*: They are association of companies that offer the same, similar or complementary products, all of the same country that gather together to do one export. The export will be in the name of the whole committee. They handle the physical process and they might use an external distributor or not, so it may be an active or crossed export as well.
- B) **AGREEMENTS AND LICENCES**: Those are the choices that handle the middle level of control on foreign activities, because is a deal between two parts that need what the other has to offer and create a balance. We can relate to three groups (Mitxeo, 2010):
  - *Franchises* give the knowledge of how to produce a good and the how to bring it to the market is transferred from one to another. The franchise, works like a subcontract, but instead of subcontracting the production, is everything. Is like opening the same exact company, with the same name, equipment, procedures, intellectual properties... and also technical help, but in a specific geographical space. Franchisor sell that for a high price to the franchiser and get a commission every year as well. This is an easy way to

expand for the franchisor. The franchisor, even though the inversion might be high, they get a company that already works.

- *Licences* work very similar, but the only thing sold would be more specific like a brand name, design, production-right, know-how, technical information and so on. It is basically given the right to do something that they could not before in exchange of a royalty or canon.
- *Subcontracts*: Through this, a company (hiring), asks another (hired) to produce or sell a product, good or service, in order to integrate it in the value-chain. The subcontractor has higher cost by doing this, but it helps overcoming periods of low demand or material better.
- *Consortium*: There are company associations that come together to pursue a specific project. They are formed by various partners and the project involved are rather big scale. This association has not a legal entity formed to deal with the project and the partners will preserve their individual condition. They will just face a very big project together, sharing high investments and risks.
- *Key in hand*: A company agrees to open a facility with another company abroad, but his company will deal with all that is needed, while the other will go when everything is ready.
- *Handling contract*: For a yearly payment, another company will take over the direction of the company as its own. Internationally is often done, the control is let to a local company which controls the environment better.

C) DIRECT FOREIGN INVESTMENT (Mitxel, 2010):

- *Joint venture*: It may be the most difficult way for a strategic alliance. At least two companies join forces and create a new one for a new business. Control, risk decision making... is shared by the contribution by the companies. They will still be independent, but there is a third new entity.
- *Open subsidiaries*: Full investment in behalf of the company to open a fully owned subsidiary in the new market. It should be the last to do when internationalizing to a new market. Is the riskiest way of all we've seen due to the investment and implications, but on the other hand, the control is full and there are no other strings.
- *Buying a local company*: Instead of opening a new subsidiary out of nowhere, we would buy an existing one in the new market. Usually the investment will be higher, but job would be easier and the information and knowledge we would get could be very useful.

These are the different choices company's got to embrace the new market. In each cases the resources, control and risk will be different. In the next table we can see the level of each option.

	Exports	Licences	Joint venture	DFI	Purchases
Control	Big	Small	Medium	Big	Medium
Resources	Medium	Small	Medium	Big	Big
Risk	Small	Big	Medium	Small	Small

SOURCE: Errasti, 2002



**2nd Part:**  
**Empirical Part EIKA company's**  
**analysis**



## 4. COMPANY'S ANALYSIS: EIKA

### 4.1 EIKA CO-OPERATIVE

#### 4.1.1 INTRODUCTION

We have arrived to the second part of our job, and the main point of it: the analysis of a co-operative company and how it managed to internationalized itself by using an international strategy. As stated in the objectives, the company we have selected is part of the social economy we have been discussing in previous chapters, and we will see how its co-operative nature has affected the global behaviour of the company.

EIKA co-operative is a company part of the Mondragon group of co-operatives and it's integrated within the Components Division. They produce and sell radiant heaters, touch controls, tubular heating elements and electric thermostats. But what they do best is work in close co-operation with the customer so they can give solution to every situation and produce quality of life out of their products, by making applications easier, more economical and environmentally friendly, giving users more than they can ask for. Also, as an effect for they research departments, they created the co-operative ISOLEIKA that specialised in the aim of offering products the guarantee of the best thermal solution for the household appliances, construction, transportation and industrial applications, such as steelworks or firewalls sectors. Even though ISOLEIKA has directly been created within EIKA's embrace, and is also part of Mondragon group, we will only focus on EIKA.

EIKA has its headquarters located in Etxebarria (Bizkaia) but its sales have presence all over the world, having 3 main production plants around the world, besides the one in Etxebarria, as well as 5 sales offices in cooperation with fellow companies in the Mondragon group. Taking co-operative principle as its way to embrace business has led them since their formation in 1973 to a bumpy road that has eventually turned in a measurable big success.

And due to the co-operative nature of the company, the social behaviour is very present in its daily activities, especially in the Etxeberrria area. They collaborate with many initiatives in the area actively and always try to collaborate to the benefits of all around them, regardless they are part of the company or not. The commitment to the people around them is mentionable, and in every step of the way they try to build a better future for the ones to come, as the previous tried to do as well. This thought and commitment of all the people involved in the company has created a solidary community with mutual objectives, that all feel their own, that gives them strength to face the future.

To get a better and wider image of what EIKA is and how they managed to build the size it has now, I went to the headquarters in Etxebarria, where I met with the CEO of the company Ibon Ibarzabal.

#### 4.1.2 HISTORY OF THE COMPANY

“EIKA Kooperatiba Elkartea” (its actual name in Basque) was created in Etxebarria in 1973. The area of Lea Artibai, where Etxebarria is located, was basically living off the land and 1<sup>st</sup> sector labour. The people were leaving the town to work in Eibar, Elgoibar, Arrasate or such cities that were already more industrialized. The closest company was in Markina called “Esperantza” and was specialized in weapon industry, but they would only employ men, another big issue in the area at the time.

The priest Jose Maria Arizmendiarrreta was born in Markina, who was known for pushing the creation of the Mondragon co-operative. However, another figure very similar to Arizmendiarrreta arose in Etxebarria, a priest called Julian Olazabalaga. With all the social issues mentioned in mind, started a social movement along with a group of young technical students of the area with social concerns. They promoted a co-operative with the help of experts in the business division of “Caja Laboral” and they did a profitability research by visiting companies in Italy, Switzerland or England. They concluded that a business in the production of electric components for electrodomestic companies to be a successful idea, and they went for it creating the co-operative in the 22<sup>nd</sup> of September of 1973. They were 47 partners and each contributed with 100.000 of the late “pesetas”, a quantity very high at the time. Only a year later, in October of 1974, they got in what we today know as “Mondragon Corporacion Corporativa” (MCC).

On the 11<sup>th</sup> of October of 1976, production duties started. The name, has no meaning, and was elected, as is normal in co-operatives, by a voting among partners.

As promised, they tried to erase the fact that only men had to work in industrial jobs, and the women had to stay out of the business life to raise the children. So, they decided that more than 50% of the employees must be women, fact that stands till now.

Once the land was acquired, the building equipped and all needed ready to operate, the production activity started in September of 1976. The initial production were tubular heating elements, armoured plates, sole plates and tubular plates, all of them electric.

The beginning was very hard. The take-off wasn't as steady as they wished and in the 80s the employees suffered that part of their salary had to stay in the company as well as the extra capital that the partners decided to invest due to the continuous negative numbers. The commitment of the people was clear, with some of the employee/partners asking for credits so they could make their input.

After the initial sacrifice, the business finally took off and the 90s brought profit along with adaptation to new products. In 1995, in addition to the tubular heating elements that was the

usual heating technique of the time, they went on to produce radiant heaters for glass-ceramics hobs. Also, by the end of the century, they integrated the touch controls to their offer, so the heating could be controlled by hand through the cooktops. They made their offer a wider, more complete to the customer.

Although the global subsidiaries came in the 21<sup>st</sup> century, the global market had always been a strong part of their sales. Already in 1979, in the fourth year of their production, they were selling abroad. By 1985, 60% of the total revenue would come from outside the country, reaching 75% by the end of the 20<sup>th</sup> century.

That weight on sales could not go unseen and they decided to internationalise the company by opening their first subsidiary in the Czech Republic. It was a strategic movement due to the need of one raw material for production as well as better position for the European market. Not far behind the Mexican plant came along for a better position in the American market in 2004. Last, the Polish plant opened in 2006.

As we all know, in 2008 the global crisis hit, and the Czech plant closed for a while. Later in 2013, “Fagor” (one of the main co-operatives of the Mondragon group) closed, which hurt the company severally for two reasons:1) it was one of the great sustains of the Mondragon co-operative and 2) it was one of EIKA’s clients.

Once the crisis had passed, it all went back as it was and the company is rising its sales ever since.

The following chart sums up the EIKA’s trajectory:

<b>1973</b>	<b>The creation of EIKA</b>
<b>1974</b>	<b>Part of Mondragon</b>
<b>1980-1990</b>	<b>Hard decade: Losses, part of the pay check kept at the company and need of more capital to the partners.</b>
<b>1995</b>	<b>Star of the production of radiant heaters for glass-ceramics</b>
<b>1999</b>	<b>Production of the touch control</b>
<b>2000</b>	<b>Internationalization begins with the opening of the plant in the Czech Republic</b>
<b>2004</b>	<b>Plant in Mexico</b>
<b>2006</b>	<b>Plant in Poland</b>
<b>2008</b>	<b>Crisis hit and Czech plant closed for a while</b>

<b>2010</b>	<b>Creation of ISOLEIKA</b>
<b>2013</b>	<b>"Fagor" closed</b>

SOURCE: Self-made

#### 4.1.3 PURPOSE AND OBJECTIVES OF THE COMPANY

EIKA Co-operative Society has had its purpose always very present, but may have been changing along with the time. As they have told us, they have just readjusted it a little to the objectives of the new era.

To know a little further what the company's identity is, what they are here for and what they seek; we will define their mission, vision and objectives:

1. MISSION: "EIKA is a Basque leading industrial co-operative, integrated in the Mondragon Corporation, and through our socio-business project we create sustainable jobs and bring wealth to our community for today's and future's generations and to guarantee that, we offer solutions to cooking electrodomestics of white goods and develop new business chances to get insurance for our customers and employees, always backing up on our values."
2. VISION: "We want to be world's referents in the cooking electrodomestic world level, in an efficient way, with innovation always in mind. We want to create attractive jobs for the ones to come as well as the pride of the ones already working with us, pride of being part of EIKA."

The reason why EIKA is here once known, and some of the general objectives mentioned, we will want to know what they seek in a shorter time in their business activities:

1. Switch between offering only components to offering a global system. They only offered pieces or components so far, with more or less specialization. But as an objective, they want to implement a service where they offer "wholes" instead of units, and maximized the personalization to the need of the clients. The offer will be a solution to the customer, giving them the design, pieces and everything they will need, and also have a closer relationship with the customers while doing it. This "Vision of Systems" will be one thing to focus in the future.
2. Keep rising in the market and seek new market opportunities, while keeping or improving our efficiency and business models.
3. Inter-cooperation with fellow co-operatives to be active and productive, while bringing wealth to the communities around us.
4. Very important the development of the people of EIKA. The single objectives of the employees or anyone related to the company is important to everyone. Because EIKA will be what people of EIKA wants it to be.

In co-operatives, the business objectives are usually mixed with social objectives. They seek one to get the other as well and we can sometimes see a glimpse of that looking at the objectives, as we do here.

However, EIKA and the Mondragon group as a whole, follow the common co-operative values that I have already mentioned and commented in the previous part of my job. They even share their own values among the whole Mondragon group, which I see it normal. This are the values that Mondragon wants to predominant in their group of co-operatives:

- Self-imposition and responsibility
- Responsible solidarity
- Inter-cooperation
- Social transformation
- Good government practices

We can see here is that besides the known and usual values of co-operatives, they made some their own, and give them more importance because that is what they've seen it's important for the group.

So have EIKA, and they have underlined some values that want to make their own as well:

- Respect and confidence
- Compromise and responsibility
- Interco-operation
- Efficiency

This being known by all surrounding EIKA, they want those values along with the Mondragon's values, to be present in the everyday activity, so they find meaning and pride of working for a good purpose.

#### 4.1.4 SECTOR AND LOCATIONS

Before beginning with the strategical analysis of the company, we should get to know the sector it operates a little more and also where the company operates physically.

EIKA is operating in the cooking electrodomeastics sector, and their aim isn't to sell the products only, but to try doing it personalizing the whole product to the clients, creating a "Vision of Systems" for the customer, personalization the sales and creating a deeper and stronger relationship with the customers (as said in the objectives above). So, they don't only seek "selling" in the cooking electrodomeastics sector. They main facility is located in Etxebarria (Bizkaia) where they produce part of the products and run all the spread 3 subsidiaries, which are the following:

- Mexico: Opened in 2000
- Czech Republic: Opened in 2004

- Poland: Opened in 2006

These 4 plants have different kind of production, and among the four of them they create a variety of products headed to the sector and sold all over the world.

Although it may seem like is not much comparing to other worldwide kind of businesses, it has worked out just fine and they have been able to handle all the supply with all 4 plants perfectly fine.

Regarding the sector, it has had it bumps in recent years due to the well-known worldwide crisis that hit the markets in late 2007. The most recognisable hit that came with that was the closure of “Fagor” in 2008-2009, not only because it was a client, but also because it was an extremely important part of the Mondragon group, if not the most. But things have been better in the last few years, and it really looks that all the bad is gone and the market growth is steady.

With a recognizable name and a good position in the sector, they will try to take advantage of that growth to keep growing and gaining experience while they seek their objectives and improving the community alongside.

## 4.2 EIKA’S STRATEGIC ANALYSIS

### 4.2.1 EXTERNAL ANALYSIS OF THE COMPANY

To begin with the strategical analysis of the company, we should begin with a study of the outside environment to be aware of the competitiveness of the sector in the moment. To do so, I will study all the factors involving the company to locate the threats and chances around. Then, I will look on the inside of the company to see its health and see what are the weaknesses and strengths.

Last, I will create a SWOT analysis with all the data collected and come to conclusions with them. With this, we will see better the position of the company in the market and see which could be the logical direction with less risks and more security.

So, we will address the research by exploring the microenvironment of the company, in other words, its activity, distributors, suppliers, intermediaries and what involves the industrial activity of the company in general. The most used methodology to study this kind of environment is Michael Porter’s 5 forces, and that is the one I will be using to do it. This will be the 5 forces surrounding the company:

- The competition level in the sector → HIGH COMPETITION

This sector can be catalogued as a concentrated one, because not many companies are operating but with relatively big market share each. This kind of concentration has been building



up in the past few years, due to the purchase of smaller companies by the big ones. Now the big companies have made themselves bigger, and there is less to compete with, but stronger.

A concentrated sector is usually less competitive, but in this case, it is also true that the company sells different kind of products, and in each of them the competition varies. Speaking only about the companies that offer the exact same products and services as EIKA does, there would be another 2 big enemies, being E.G.O. the closest rival. If we refer to the competition of glass ceramic hobs, there are also 3 main companies competing, being E.G.O. the one to beat. In tubular heating section, the competition is up to 8 businesses, and is the most competitive to date where every single factor can give the edge. Finally, in the electronic field, most customers have it integrated, and it serves more as a specialization service for the ones that do not have it.

However, and in spite of the concentration, the variety and effectiveness needed in the sector makes the actual competition is very steady, in their words of Ibon Ibarzabal, CEO of EIKA. They have to be very effective to get the sales and every single factor counts in the market.

It was implied, but we are talking about worldwide level competition. EIKA sells almost everything abroad, more than 95% in their words, being Spanish market very small comparing to the global numbers.

Since the company does not operate in the stock market, their results are not public, and they would rather keep that private, what I respect very much. What they did tell me is that they annual sales are up to 100 million expected for this year, form the 90 million sales of last year session. The market is rising and they will do too, and at least keep, if not improve their 40% market share, they own at the moment. The American market is where they are experiencing a steady growth where they have grown 15% per year for the las 3 years and they pretend to continue that trend.

- Threat of new entries→LOW

The only threat they visualize is coming from the Far East. China has always managed to do everything cheap, and it may end up being a threat in the sector. But their impact so far has been moderately low.

We can see the threat shouldn't be very high because there are entry barriers in the sector:

1. The companies that are already producing are big enough to get economies of scale on their production, so they will have way cheaper production costs than a fresh newly started company.
2. To even begin production, the equipment is very expensive and specialized, so the initial inversion on it would be huge.
3. Furthermore, some suppliers are strategical, not exclusive, and that might generate some problems to beginners.
4. Geographical position can be important, for example in tubular heating elements, due to their sensitivity transport must be done carefully, and the position can be decisive, though no essential.

5. Experience is also very required by clients, as well as a guarantee that their requisitions will be met.
6. Some patents are also against the newcomers.

All this entry barriers should initially hold off competition, and that is why, besides the Chinese factor, they do not see any other threat in the short run which would increase the competition in the market.

- Threat of substitute products → RELATIVELY LOW

Besides the direct competition in the market, they always have to keep an eye on the products that offer similar functions than theirs. In this case the one that fit in that threat would be the induction for glass ceramics, which is another kind of heating that customers might choose over radiant heaters. This kind of components are substitutes but represent a relatively low competition due to market differentiations.

- Bargaining power of the suppliers → HIGH

The variety of raw materials makes this different in each. In the materials that are very common or not at all specialized (like plastic, paperboard, screws...), it doesn't really matter who do you buy it from, which gives EIKA the edge in negotiating with anyone.

In the case of other raw materials, like insulating components, this are more specialized and strategic. The bound with these suppliers is stronger and important, and not the kind you can break from one day to another. This is also because the relationship between the company and the supplier had meant a learning process and adapting to one another that breaking the bound would hurt EIKA enormously. So, this give the supplier some kind of power negotiating.

Also, the ceramic world is very technical and very concentrated, which makes them powerful enough to negotiate too.

- Bargaining power of the customers → MEDIUM

The customers have been concentrating lately in a rather high speed. There are fewer, but stronger and bigger customers then. This gives them the edge for negotiations due to the power they have by being big and not many. However, the company is an experienced one in the market, one companies trust, and these levels out the negotiation conversations.

So as PORTER said, the competitiveness in the sector will define the chances of profitability in the sector in the medium long term. As seen and said, the competitiveness in the sector is pretty high, but due to difficulties for new companies to enter the sector and the substitute threat is not high, it will continue to be competitive, but with today's standards to get the market share and growth. Profitability then will continue to be high, but not without fighting for it.

## 4.2.2 INTERNAL ANALYSIS OF THE COMPANY

After getting to know the sector and what surrounds the company in general, is time to focus on what the company has to offer, by researching its structure. This way we will identify the company's strengths and weaknesses so we can elaborate a strategy a little bit down the road. By defining these two factors, we will be able to know what can give the edge for competing in the market, as well as knowing where flaws the company and how could be fixed.

To explore the inside of the company, I will check its functional areas one by one, and try to get an image by the information the company has given me.

### 1. Human resources:

The number of employees is up to 1100 now separated in the 4 plants around the world: 550 in Etxebarria, 360 in Mexico, 125 in Poland and 100 in the Czech Republic. By spreading the plants and the employees they get to be closer to every customer, enabling them to offer a closer personal service.

As we can see, the main plant is the one in Etxebarria, as is the first one created, the father company of it all. The main decisions are taken in there and given instruction to the rest subsidiaries. So, the "heads" are all set in Etxebarria too.

The structure of the company is pretty simple and plain, like a normal co-operative, as they tell us. They did not provide us with an organigram structure, but they did explain us how the upper level works. There are three different management bodies:

- *Presentation and management body*: Formed by 7 and this are the ones who run the co-operative.
- *Executive body/Management advisory body*: Held by 10 people. They are the heads of directing the management wishes as well as advising them.
- *Presentation, training and advisory body*: it's a social body, the link between the two main bodies and with the employees. The main purpose is communication. Is held by 13 people.

Above all of them is the general assembly held by all the partners of the co-operative. They decide by voting all the important matters as well as choosing the members of the management body and its head. They also decide who sits on the social advisory body. As for the executive body, the head of it is elected with the help of Mondragon's rector, and once the head is elected, he or she decides who will be in the team with him or her.

Below all this, we will find for each Strategic business unit a production, quality, purchases, and all related section of the company. The specific sections and the diagram that represents all of this management body hasn't been handed to us in order to maintain company's privacy.

We should also mention that many employees come to the company from the technical schools in the area. The company is socially active financing the schools and offering internships to the students, and many of them end up working in the company. This ensures well prepared

employees, especially prepared for the job. These actions financing schools and forming and employing youth, is part of the co-operativistic objectives so is in EIKA's nature.

## 2. Finances:

Although now EIKA is in good shape referring to finances, its history has been a bumpy ride. The beginning was especially rough on them: As you know, it was created to fulfil the industrial need in the area and to employ more women in 1973-1974. With the partners money they handled to open production in 1976 producing tubular heating elements.

The 80s were pretty tough in the finance field. The sales weren't enough to cover the expenses and the years always closed in red colour numbers. Decisions were made to keep EIKA floating, so part of the employees' payment had to be kept on the company. Furthermore, the partners had to give extra capital so the plant could keep producing. As most of the employees were indeed partners, the economical sacrifice made during these years was huge. But we can say it paid off pretty good.

The 90s turned the situation around and the numbers started to fit after all the sacrifice suffered by partners and employees. In 1995 they decided that instead of producing only tubular heating elements, they would produce radiant heaters for glass ceramic. They saw that the market was changing, and they invested in another kind of production that was an absolute success and they are responsible of the 40% of the sales of radiant heaters nowadays. A long ride but successful.

In the dawn of the new century, the good financial situation and the wider globalization effect the world was facing due to the internet revolution, EIKA decided to open its first subsidiary. The destination was the Czech Republic, and the reason was that the radiant heaters need the "foundeik" heaters that the company in the Czech Republic would do. Next subsidiary investment would go to Mexico in 2004 in order to produce tubular heaters for the American market. The position was very strategically chosen. Last, but not least, the Polish plant was opened in 2006 to keep producing tubular heating elements.

The investment made in the plants was very big, and all of them were created from scratch.

In 2007 the financial crisis hit the markets all over the world, and EIKA was hurt too. A big hit was the decision of closing the Czech plant during 2008 and 2009 to focus in other matters.

In 2010 another investment was made by diversifying the offer and opening ISOLEIKA. They would produce isolation panels as part of the offer for EIKA.

But the situation went worse with the closure of "Fagor" in 2013. The economic crisis really hit the Mondragon Company, and "Fagor", its bigger asset went down having to let go over 2000 employees. The repercussion for EIKA, besides that Mondragon suffers, was that "Fagor" was one of EIKA's clients, and the sells went down after "Fagor" closed.

In the recent years, the market inevitably has been recovering from the crisis. The company has gained strength and take advantage of the market growth to be nowadays well positioned in the market. They hold their breath for a while last year when Donald Trump was elected president of the United States. His protectionist policies and his wish of building a wall with Mexico,

worried EIKA for its sales in the American market. But as they tell us, it hasn't affected them so far but is a matter to keep an eye on.

In the present, the sales are up to 100 million per year and it's totally capable of financing itself. However, we do not have any data due to the privacy of EIKA. So, we do not know where they send their profit or what their financial health is exactly, but we can say that there are not cash issues and numbers are very good at the moment.

### 3. Commercial field

Regarding the commercial field, EIKA has always tried not to take risk before entering a new market. This involves researching the markets carefully and getting to know what the customers' needs are. These researches involve the actual customers as well as the potential customers in the markets. They know them very well, as they tell me. The result helps them adjust to every market with a personalized strategy, and each subsidiary would adjust too to their closest needs.

They would not want to fall behind either, and the search could lead them to emerging markets that could be very profitable, as it's the case of north-east Africa, and surroundings. They are studying the opportunities in there and how to penetrate the market.

According to the range of products, the products do not vary much around the world. The offer generally is the same, but if a particular market has not evolved or a certain product hasn't kicked in yet, they would focus on older products or styles. For example, in the American market the radiant heaters sell better, and the production in America is more focused in that field as well as the sales department.

The prices are as adjusted as they can be. The competition in this area is very fierce. The similarities on the products between companies leave the price as the most used way of competing (not the only one), and the prices have to be as contented as possible not to fall behind. The effectiveness is the key as they say. They must be effective in every field of the production, as well as with the relationship with the suppliers and customers, to get the price right and compete with it too. They are experts in that, and the pressure of the level effectiveness is something they've learnt to handle during the years.

The distribution channels used are usually direct. They sell to intermediaries, to other companies such as SIEMENS that do sell to final users. We say that it is direct because there are no management companies in between. There is no marketing in the company, so the connection with the company is direct which gives the chance to have a better service too.

They do share commercial offices around the world with fellow co-operative companies from Mondragon. These offices will try to get new customers in new areas and research new areas as well.

EIKA has built a brand name recognizable among the industry, due to trajectory and success. They do not have a name as big as "Bosch Siemens", mostly because they don't have the marketing behind, and because EIKA doesn't sell to the last consumers as they do. The name or

recognition that do value EIKA, is the social name. It is on their objectives the social action and the well-being of the community and employees.

The biggest customers and names that EIKA sells to are good known companies such as GENERAL ELECTRIC, BOSCH SIEMENS, WHIRPOOK, ELECTROLU or MIELE. Most of the buy from EIKA and then modify the product to sell it to the las customers. EIKA is their supplier then in some cases.

#### 4. Production field:

Production is spread among the 4 plant of EIKA. Each of the will mostly work on one product, but they do work on other, in a little scale depending on the needs of the company of area of the world:

- Etxebarria: part of the tubular heating elements, and with this plant they cover Spain and part of Europe.
- Polonia: Also, tubular heating elements, for Europe.
- Czech Republic: Electric thermostats mostly, and spread it around the world from there.
- Mexico: Glass ceramics especially in there, but also anything American market demand is. The market mostly demands radiant heaters for glass ceramics.

Each place cover one need, complementing each other, but in certain cases could operate on their own.

#### 5. I+D field

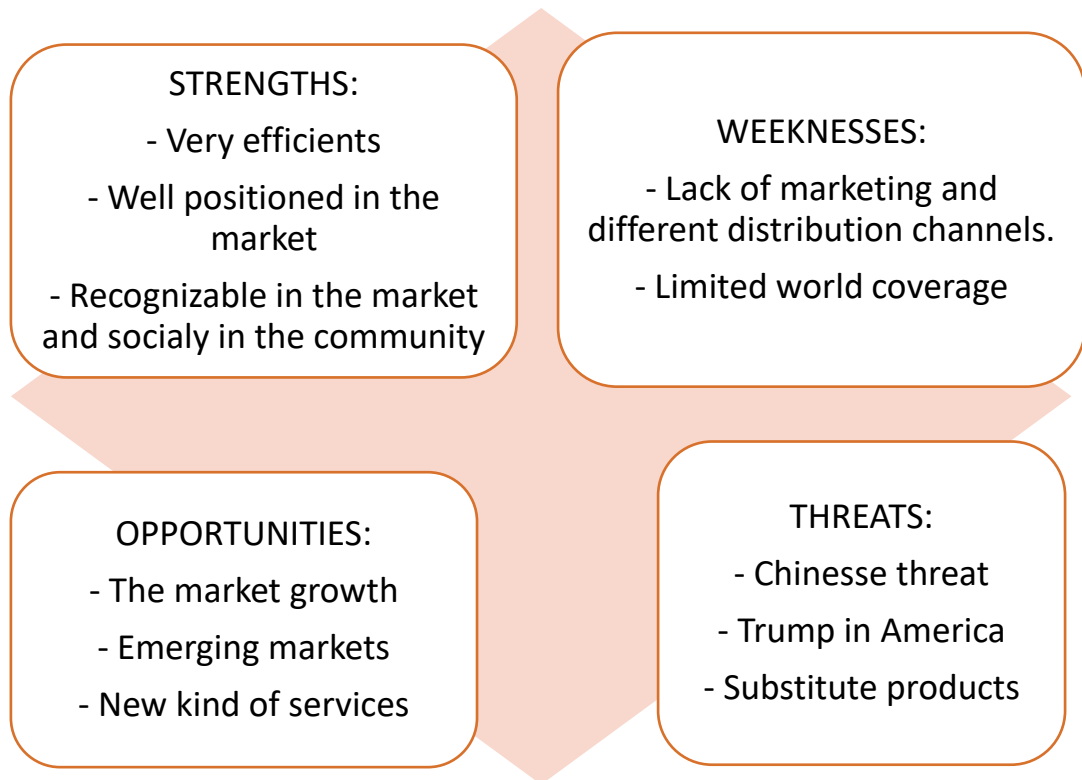
Regarding Investigation and Development field, they have it covered in many ways:

- First, as logical, they have their own division in the Etxebarria that works hard to get the efficient and innovation needed in the already evaluated competitive market.
- But as part of co-operative work, the Mondragon co-operatives that share industrial similarities with EIKA's work, join the forces and create a joined I+D division outside their respective companies. The companies EIKA has joined are the following: FAGOR, EMBEGA, TAJO GROUT and MATZ-ERREKA. Most of them share material use or purpose of white good products.

The innovation is constant in technological companies, and efficiency in the field pays off. The also work hard in this field now, due to the objective of offering new unified systems, as a new kind of service to the client.

## 4.3 SWOT ANALYSIS

This part of the job consists on evaluating what we got from both researches (external and internal analysis) and see what the best global strategy would be for the company. I should say that the company did not give me any SWOT analysis, and the following one will be one made on my own:



SOURCE: Self-Made

- **STRENGTHS:**

We would get the strengths of the company by looking the inside research of the company. What I see the company excels in would be, first, the efficiency they have. The market demands it and they get it by having well-formed employees due to their help and link to technical schools, the investment in I+D, and a well-organized production around the world. Speaking about the production, taking into account the sales volume, the scales of economy are pretty big by now. I can also see as a strength the well positioned it is in the market. The 40% of the market share of the radiant heaters support this, and is in the top 3 of the market overall. Finally, its brand name combined with social activities gives them positive word of mouth.

- **WEAKNESSES:**

The company do have its flaws that can play against them while competing. The first I see is that it does not have an active marketing field to promote the product. The sales are direct and, although it has worked out just fine in the past, I can imagine it would open to other kind of customers, even last buyers, by changing the distribution channels. Commercially they are limited then. Another flaw can be the negative effects that the crisis brought, that even though the situation has turned, may still be present in financial matters. Last, I would mention that they could spread a little more around the world. They have Europe more than covered with 3 plants very close to each other, but huge lands and market such as Asian has not plant of its own

where they could produce closer and evaluate the situation in person. Also, it could give them a closer view to the emerging markets we mentioned in south west Asia. This is only my thought and not really sure if that is necessary at all.

- OPPORTUNITIES:

We find the opportunities by looking at the outside research we previously made. As I see it, the main focus here would be to take advantage of the growth of the market and grow equally, or even higher. We also mentioned emerging markets like Egypt, that also are opportunities that shouldn't be ignored. The idea of creating the service of a global system is also a chance to embrace the growth and difference from enemies. Also, diversification to any other unit of product is open (such as induction) which would expand their client wallet.

- THREATS:

The difficulties the market puts on the road must be identified in order to overcome them. One of them is the threat that Chinese companies stepping into the picture. So far is not an issue that has made much noise, but who knows in the future. Another threat that has recently appeared is Trump in the United States. His next moves could create difficulties to keep doing business with the USA, even more having the subsidiary in Mexico, where he intends to build a wall with. A threat that I personally see also is that the similar product such as induction heating cooktops are in rise, and as a substitute to tubular heating cooktops is a threat to the company. However, they say is not a threat just yet.

So, according to the SWOT analysis I have made, the company could take some strategic decisions:

- 1- Take advantage of the efficiency they already have to embrace the market growth as strong as possible. That kind of efficiency will also be needed to the new project of offering a global system service.
- 2- Also, the name and efficiency can be crucial if eventually there is a need of facing a Chinese threat. Products will have to keep cheap and a more recognizable name could be helpful.
- 3- The new emerging market can be a good excuse to open up a little more to the world and get a bigger coverage of it. Although they work just fine as it is, it can be an improving point while taking advantage of new opportunities.
- 4- Embrace new opportunities by trying new ways of distribution that could vary from the direct sales they use.

There can be many readings of the SWOT analysis, and since some of the details are not very accurate in order to protect some data privacy of the company, this would only be an idea of how it could be.



## 4.4 EIKA'S SOCIAL RESPONSIBILITY

As it shouldn't come as a surprise, EIKA, like many other companies, has taken many responsibilities towards society. It is normal because of its co-operative nature, and serve as a differentiation point with fellow companies as well as to create a well-recognised brand name showing caring and sensitivity for the community. This are the initiatives EIKA has taken during the years:

**ENVIRONMENT:** They actively try to reduce their negative effect to the environment, as is written in the code of conduct of the company. They follow the ISO 14001 (International Organization for Standardization) a certification they own. Their product also tends to be environmentally friendly, so the consumer also minimizes the negative effects.

**SAFETY:** For safety procedure they got the OHSAS 81900.

**HUMAN:** The employees are very important for the company. They keep forming them and giving them the chance of internal promotions. They also usually hire people from the community to support the employment of the area. Also, to support the employees' rights, it is written in the code of conduct many laws that protect the employees, such as: respect of the working hours, equality, no discrimination, respect and so on.

**COMMUNITY:** The actions taken in the community are many:

- Active help to the "Azaro Fundazioa": "Azaro Fundazioa" is an organisation whose goal is to promote the creation of new businesses and improve the competitiveness of business fabric in its immediate surroundings, preferably in the Lea Artibai region.
- Help to schools: part of their co-operative nature is forming future employees or people in the region. That is why they help the Lea-Artibai school and Lea-Artiker technological centre. Also, they offer internships for both schools and 91% of the students end up working in the company in some point.
- Language: They actively support the use of Euskara (Basque) within the company as it has been recognised with the BIKAIN certificate and the LAUAXETA.
- Business responsibility: They also acquired the ISO 9001 and SR 10, which reflect the responsibility toward suppliers and customers of respecting contract and being faithful to the product with the quality arranged.
- Region: They support their surroundings by cooperation with other companies. They gather once every 3 months to arrange guidelines to follow in favour of environment of the area, protection of the language and the keeping of the capital in the area by financing small and new businesses around.

## 4.5 EIKA'S INTERNATIONALIZATION STRATEGY

### 4.5.1 10 INTERNATIONALIZATION STRATEGIES

In the first half of the job, it studies the strategical process a company can follow to go international. It discusses different areas of internationalization, one by one, to arrange the proper way to do so. In this part, we will see what decisions EIKA took at the time its subsidiaries were opened, and how those strategies may have differed (if they have) today. The strategies mentioned are the 10 internationalization strategies, and I will mention the most important parts discussed with EIKA.

#### 1- POSITION STRATEGY

Simply is decided where are we headed. The SWOT analysis help by indicating where is sensible to go:

Already mentioned before, EIKA owns 3 subsidiaries opened between 2000-2006:

- Czech Republic (2000)
- Mexico (2004)
- Poland (2006)

They saw movement in tubular heating world, and great growth would come from east Europe. That is why they got closer as well as cheaper and more accessible key raw materials and job units.

In Mexico on the other hand, the singularities of the American market involve that everything used in that market is electric, and radiant heaters for glass ceramic are very important in there. So, seeing that potential, the decision of opening a plant in Mexico was made, and it opened on 2006 to cover all America with it. All decisions have been proven right due to the success of all the plants.

#### 2- ENTERING AND STAYING STRATEGY

All the subsidiaries were self-created, no purchase or acquisition was made in order to create them. The only help came from Mondragon with financial help.

#### 3- GROWTH STRATEGY

Growth was also self-created. The subsidiaries opened and with its self-earnings financed themselves and grew bigger. There was occasion help from Mondragon as well but no arrangements with outside companies.

#### 4- COEXISTENCE STRATEGY

The only co-work made was with fellow Mondragon co-operatives from time to time, but no work with companies from the host country.

## 5- COORPORATIVE STRATEGY

The differentiation between subsidiaries would be due to the needs of each market, though EIKA's products did not differ much through the markets. There were little adjustments to certain markets that were needed, but the overall product is the same in all markets. A little diversification may come as a customer's requirement as well.

## 6- PENETRATION STRATEGY

The penetration strategy consists on deciding which activity will be held outside. Before the subsidiaries were created, all the decision-making process and production process was held in Etxebarria. Once the internationalization started, they decided to use each subsidiary to diversify the job. Each production process has its meaning such as closure to raw material for electric thermostats in the Czech Republic.

The production was handled as mentioned before:

- Polonia: Tubular heating elements, for Europe.
- Czech Republic: Electric thermostats mostly, and spread it around the world from there.
- Mexico: Glass ceramics especially in there, but also anything American market demand is. The market mostly demands radiant heaters for glass ceramics.

## 7- COMPETING STRATEGY

The market is highly competitive regarding the price. This makes a must to get the prices as cheap as possible. Efficiency is the most important factor in this area. The more efficient the company is the cheaper will the prices be.

The price can help while competing, but as it is a important factor in the market, it will not differ EIKA from the others. The differentiation will come from EIKA's quality and flexibility. There are two things that their customers have been asking for, and they have been giving it to them with great results. Also, they ask for a personalized attention, which is also an option. All these features have led them to create the global system personalized service that they have begun to offer in order to differentiate more from the competition. The attention the customer needs is also provided by the different subsidiaries by being closer to some customers of the world.

## 8- STRUCTURE STRATEGY

The type of company is a co-operative. However, this aspect is not reflected much outside Etxebarria, where all co-operative and social activities are held, and the repercussion of them are also in reflected in Etxebarria mostly.

The relation is a normal head company-subsidiary relationship, where the father company takes the main decisions. In EIKA Etxebarria are held the meetings and created all the strategies to follow in the subsidiaries. However, they leave space to the subsidiaries to take their own decisions in a daily basis. The environment can change and it is important that the subsidiaries can make their own adjustments. So, the main and important decisions are made in Etxebarria,

but the following adjustments are up to the plants everyday brains depending on how everyday activities go.

#### 9- VIEWPOINT STRATEGY

The viewpoint strategy is global integration, coordinate all the different processes and lower the costs with scales and standardization, with minimal changes needed according to market or customer.

So, the duties in the subsidiaries are mostly limited to production. They do not worry about, marketing, finances or so. They produce in them and send it wherever needed. The post sales service might be required depending the proximity. But generally, all relations are managed by the head company in Etxebarria.

They are located in the world for purchasing and for selling. Their offer is available in the whole world and the location is to get that production and supply everywhere.

#### 10- SEQUENCE STRATEGY

The rhythm of internationalization has been strong but short. They began in the beginning of the century and their last one was opened in Poland in 2006. So, in 6 years they opened every subsidiary yet opened. In those years they saw chances and went for them in a short period of time, also because the situation was good. After 2006 the crisis came along and the situation wasn't ideal to continue with the internationalization. Besides, they did not see any need or opportunity to go for it.

In the close future, they do not intend to keep opening subsidiaries but they keep studying the market constantly.

## 4.6 INTERNATIONALIZATION OF THE CO-OPERATIVE MODEL

As we already know, the subsidiaries around the world that EIKA has created, help the father company in Etxebarria function in a wider and more productive way. The main company and all three subsidiaries produce and spread the products all over the world in the most efficient way possible. The connexion between the father company and the subsidiaries is essential for the best service to the customers.

In this area of the work, I intend to understand that connexion better, by knowing how the subsidiaries work, and comparing the subsidiaries with the Etxebarria's co-operativistic behaviour.

As mentioned before, we are studying 3 subsidiaries: Czech Republic (100 employees), Mexico (360 employees) and Poland (125 employees). There are big numbers of employees taking into account that they are subsidiaries. Also, as they are production plants mainly, the facilities must be well equipped, that leads to a high investment at a time. A big compromise economically and in human responsibility due to big numbers in both fields. Regarding the economical connection

between the father company and subsidiaries, although not always, sometimes royalties are paid for the head entity. They did not specify to me when exactly.

Among the employees, in each subsidiary the heads are expatriates sent from Etxebarria and they handle the production process and different matters that might come along. Those workers will be the direct link with the father company. There is an issue in that area as they tell me. Finding workers who are willing to go run the subsidiaries abroad are hard to find. Life quality in the Basque Country is good, and the sacrifice of giving that up and going abroad for many years is difficult. For example, in Poland where there are 125 employees working every day, they are only 5 expatriates: The manager, the finance head and 3 others. The expatriates only work as head of the subsidiaries, with no technical workers being sent abroad permanently.

As for the structure, It is very difficult to spread the co-operative structure abroad. The fact that the partners are in Etxebarria has led to focus the social movements and plans for Etxebarria mostly. To have a participation in the co-operative is essential in the decision making. They listen to all employees, and take into account every request. However, the fact that the employees in Etxebarria are partners too, makes easier that the social benefits and efforts relapse in Etxebarria. Obviously, at the time of sharing profits the partners will take shares, while normal employees will only have it, if it is decided as the company's policy in the assembly. In the future there is a chance that they focus more the social act outside Etxebarria, but it is a difficult topic yet to discuss.

From now on, in this part of the job, I will focus on the Polish subsidiary most of all, because I feel more attached to Poland because is where my Erasmus took place. I want to look on the co-operative relation with the subsidiary.

The only social or caring movement made by EIKA in Poland and all subsidiaries is the serious bet they make in the new community: They tell us that their decision of going to Poland was made to last, and that brought sacrifice and compromise. They wanted to build a close relationship with the environment they were going to settle in, as well as with the people around them. In other words, they wanted a commitment with the new area and people. That's how they show commitment with the communities abroad, not by making social actions and movements, but by making strong profitable relationships in the community and with the people.

Beside this, looking at the facts, there is little co-operative behaviour in the subsidiaries due to the lack of partners in the Polish subsidiary. In fact, it is registered as a limited responsibility company. If wanted to register it as a co-operative, the legal frame in Poland is different from the Spanish one, because it hasn't been updated since the 80s and the communist influence is still notable in the law. Also, the co-operative concept is not really supported in there because they relate it to communism and it is difficult to be understood. So, as it only would raise more problems than benefits, the legal structure of the company is not a co-operative.

But although all the effort made by EIKA to create a profitable two-way relation to the community, there is a specific problem the Polish subsidiary is facing: the employees do not last

long. Poland is a country that has been growing steadily in the last 26 years and still is. Is the only country in Europe that did not back down in the 2008 crisis. This good health has led to an unemployment rate of under 6%. The result of this optimal economic conditions is that employees are able to switch jobs because they have other choices. This is a problem to the company because they train and educate new employees, and after a short period of time they leave, which makes the training investment worthless and have to start over with a new employee.

This is a problem that may be solved with some social benefits. If employees would not see EIKA as another non-especial job in an abundant polish labour market, by giving employees social benefits as they do in Etxebarria, that could lead to a better staying power for the new employees.

The social movements, as I mentioned before, are set in Etxebarria and surroundings. There are many co-operativistic actions alongside Mondragon, but some are their own, as previously mentioned in this work: "Azar fundazioa" for the creation of new businesses, "Lea-artikai/Lea-artiker" technical schools, cultural responsibility by caring for the Basque language and so on. They are not big enough to held any kind of foundation like for instance the ULMA foundation created by ULMA, which destines 10% of the earnings to the foundation. Anyway, EIKA's connection to its environment is pretty mentionable and palpable and will continue to be so, even get stronger in the coming years.

Regarding the father company-subsidary relationship between Poland and Etxebarria, the decision making is always held in Etxebarria, and sent the orders to the facilities in Poland where the expatriates working there will apply them as needed. The relation between the employees sent and Etxebarria is constant, as they keep the head company informed of the everyday activities so EIKA can take the fresh data into consideration for adjustments in planification and decision-making processes. However, as they expatriated live and work there, they can adjust everyday activities, processes and objectives as pleased due to direct feedback and insight of the plant. The communication with the father company is constant and very active. The equipment of employees, training and any other intern activity will be faced by the subsidiary. The father company's only job in the subsidiary is the decision-making process.

Last, I would like to notice the social economy concept, which are a group of private companies with a right to decide and apply for its member's equally. In our case, with all seen, we can say EIKA is part of a group of the social economy, part of Mondragon Corporation. In fact, Mondragon Corporation was created to fulfil the partners' needs though the market and the companies that were created to fulfil those needs. So, the main objective of the corporation isn't to get profit but to get the needs of the partners to the market by promoting the companies in the group and fulfilling that need. Such Corporation as it is known today (Mondragon Cooperacion Corporativa, MCC) was created in 1991 from its previous form, and EIKA was part of it already and kept inside. The new group was formed to restructure the co-operative group to the new environments by forming co-working divisions.

## **3<sup>rd</sup> Part: Conclusions**





## 5. CONCLUSION AND BIBLIOGRAPHY

### 5.1 CONCLUSION

With all said and done, I can present the conclusion of the study. First of all, after all the readings about the social economy and its beginning, I can say that it started as a reaction to a failing capitalistic method, but specially arose in difficult times in history. Times like the industrial revolution in the 19th century when great thinkers expressed their ideas about the new economic model, brought social dimension to society, so it could find balance. Or after World War II or Spanish civil war when co-operatives like Mondragon arose against hunger, inequality and poverty. Social economy has arisen in such tough times till it got the recognition it has now.

But nowadays it is a completely accepted and used model all around the world. It has been completely studied and used by now and I think we can all agree that is a recognised and respected internationally.

The companies that embrace the economic model of a co-operative for instance, will gain unmeasurable positive response from the community that is socially helping, as well as commitment from its people. I can see also that all parties associated with these companies such as members, workers (usually members as well), suppliers, clients, customers... can feel more attached to this kind of companies due to its social actions, which I can conclude is enormously positive for the business in many ways.

However, we are in a globalization process that has brought change into business life, and the other way around, the multinational companies has pushed globalization to a greater speed. Thanks to globalization the way of doing business has changed. The limits are way wider and the factors to take into consideration in decision-making processes are more now. In fact, this globalization has made easier to enter new market, but also to others enter our home market as well.

This globalized world has forced the social economy companies to behave more like capitalistic ones due to the competitiveness all around the world. I can see that they have become in some ways more profit chasing companies for survival, and to ensure that they keep up their social work. To keep it up, the co-operative companies had to internationalize also and keep offering an alternative to capitalism also globally. For instance, take Mondragon Corporative. It integrates a net of companies that follow the principles set by social economy, but I would not say they are all fully engaged to it. There are around 260 companies inside the corporation, and although being a co-operative is a must to belong there, I do not think that each and every one of the co-operatives have the same aim to fulfil the social needs of its core connexions. In spite of that, I consider that the values that the corporation implied though all the co-operatives are well founded and the general response and effect on the Basque society is unmeasurably positive.

To conclude the globalization conclusion, as the international business life is much more volatile than the domestic one, constant external research might be needed now, to adjust the threat and opportunities that come from within. I was able to evaluate EIKA according to the data the company gave me, and my conclusion is that this part is crucial for the internationalization strategy, but very laborious as well.

Regarding EIKA, I can see the company in great strength to face the following years. The sector is growing and have a concentrated sector to fight for the grow. Their innovation idea wanting to offer a system rather than a product will be a differentiation in the sector, and with their prices still as low as possible due to their experience and effectiveness, they will be able to embrace the market growth and gain market share in my opinion. Nevertheless, the sector requires a continuous innovation and study, which should continue doing with fellow companies in Mondragon.

EIKA has been able to build an Internationalization strategy since the early years of the century. In my opinion, the internationalization was called for in all the cases and have been a very successful moves due to the coverage and production volume they have gained with these decisions. However, it seems kind of odd that their last subsidiary was opened over 10 years ago, and in spite of market growth and the wish of penetrating new markets, they do not wish to open any more subsidiaries for now. This indicates the complexity of an international strategy, that every decision has to be taken carefully.

Internally in Etxebarria, everyone is fully committed to its cause. I can understand that because most of the employees come from technical schools in the area such as Lea Artibai and Lea Artiker. Not only the company provides help for students to form themselves, but offer them a job once they finish studying. That kind of social action pays off perfectly when all these students became part of EIKA. You will have a fully prepared and capable human capital that will give 100% for EIKA. This is one of the most positive aspect of EIKA's social actions in my opinion.

Besides the employees, all connections to EIKA has positive feedback in regards of its social actions in the area and that concludes in a better business activity that might have had if it was a capitalistic company.

We cannot say the same in EIKA's subsidiaries. The refusal of acting socially in communities where the subsidiaries are located has led to a different experience in such plants. In Poland, we see that the employees are not committed to the project because they keep quitting jobs and that brings more work and cost to the subsidiary because they keep forming employees that usually do not last long. I have learnt that the social frame that the company has in Etxebarria is no longer seen in the subsidiaries. They act like a capitalistic production plant in all of them, and the differences regarding the commitment are obvious as mentioned.

My conclusion is that in a co-operative, the members are the ones that want to improve their area, community or people. Since the head company is in Etxebarria, and members and vote rights are also in Etxebarria and surroundings, I can see how all votes go to improve Etxebarria's

conditions and not any other subsidiaries' conditions. It is completely logical, but also kind of fails on bringing the co-operativistic social dimensions abroad.

In conclusion, I think the decision of internationalizing EIKA was the right call due to the weight of the exportation it had already in the 90s. The strategy was studied and applied perfectly and has led to 3 perfectly fine functioning subsidiaries that contribute in the everyday success of the company. In spite of that, and besides they do not intend to open any new subsidiary, I would very much consider opening up a little more to the world by taking one more step in the internationalization of the company. The market is growing and so should EIKA in a way. Also, the lack of any social actions abroad did come as a little surprise, and an initiative in behalf of partners in Etxebarria to secure the well-being of the employees of the subsidiaries at least, would be a sensitive and smart move in my opinion.

### 5.1.1 PERSONAL OPINION

I found really interesting to evaluate EIKA and see its ups and downs. I found its history very interesting and complete for the job, and I can say it really fit my needs.

I see EIKA in a great shape for the future. Its objectives for the future are very realistic (as they should be) and very logical for the market's situation. They are in constant improvement, either to get more efficiency that is so demanded in the competitive market, or to get technical breakthroughs though their co-operative work with fellow co-operatives in the Mondragon Corporation. The case is that I see a bright future ahead of them and I really would like to see a new subsidiary opened in the following years even though they do not have plans for it yet. Who knows, may be in the emerging north African countries? Or in China to face the new threat? We will see.

I want also comment the failure on expanding the co-operative concept outside our borders. It would be great to see the social aims and wishes of the polish plant to become true. Or maybe also support schools in the area to form a better professional and offer students internships in the subsidiary, for example. But the reality is that they open subsidiaries for business, unlike the co-operative in Etxebarria. The subsidiaries nature is capitalistic, earn money out of them. That money is eventually going to a co-operative, but has no effect whatsoever in the places they chose to open. That is what I have learnt, and only the future will tell us if they reverse this trend and start being socially active in the subsidiary's areas, or continue like another regular company.

We'll see.

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