



**Theoretical aspects of collective Enterprises**

**Sergey I. Zhuk<sup>1</sup>, Rifat I. Khabibullin<sup>2</sup>, Diana R. Grigoreva<sup>1</sup>**

- 1. Kazan Federal University, Chelny Institute, [serg-zhuk@yandex.ru](mailto:serg-zhuk@yandex.ru)**
- 2. Central Economics and Mathematics Institute of Russian Academy Of Sciences**

**ABSTRACT**

This article is devoted to the theoretical issues of the functioning of collective enterprises. The article reveals the concept of a collective enterprise (self-managed firm), as well as the principles of the functioning of such firms. The authors mean collective enterprises by those economic entities which work collectively actively participates in making managerial decisions. Moreover, the organizational and legal form of the enterprise is immaterial for the case. The arguments of supporters and opponents of collective management are considered. The main advantage of such enterprises is the high level of motivation of employees interested in eventual outcomes of their work. It is shown that collective enterprises overcome such management problems as imbalance of interests for various participants of economic activity, authoritarianism at the microeconomic level, prevention of workers from participation in production management. At the same time, the main feature of a collective enterprise is not so much the participation of workers in the company's capital, but rather the real economic power of its work collective, what requires formation of a qualitatively different corporate governance culture aimed at broad involvement of employees in managerial and economic processes. The most important argument of opponents of collective enterprises is the ineffectiveness of making group decisions due to the lack of professional competencies among the bulk of ordinary workers. The paper notes that this deficiency is overcome by introducing the system of continuing education for members of the work collective at a collective enterprise. The condition for preserving the advantages of collective enterprises and eliminating their shortcomings is the strengthening of interaction of labor and capital in making decisions in the sphere of production management and the distribution of its results.

**Keywords:** economy of contributing participation, collective enterprise, joint-stock company, participative management, work collective, management democratization



## **1. INTRODUCTION**

In recent decades, the world has seen a trend in the development of collective entrepreneurship which involves the extensive involvement of company employees in making decisions at the microeconomic level. As many domestic and foreign economists believe, the need to involve workers in the sphere of making managerial decisions is caused not only by the end of the "mass production" era and humanistic ideas in society.

Participation of employees in solving the tasks of the functioning of companies contributes to the achievement of high labor productivity and, as a result, to the obtaining of financial benefits (Ohana M., Meyer M., Swaton S. 2013, Carr M.D., Mellizo P. 2013, Handel M.J., Levine D.I. 2004). Involvement of employees directly affects the effectiveness and efficiency of enterprises. It is established that in 93% of cases, self-managed firms show financial results better than their competitors. In 92%, the number of innovations in self-managed companies is higher than that of their competitors. The most prominent representatives of self-managed organizations in the world are The Morning Star Company, W.L. Gore Associates Inc., Valve, and others. Self-managed groups are found in such companies as Procter & Gamble, Federal Express, AT & T, General Electric, Xerox, Volvo (Boltrukevich V.E., Vzorov V.N., Naumov A.I. 2014).

As A.A. Alpatov notes, the trend of property deconcentration and democratization of governance is "not a phantom of the imagination, but a natural historical process of development of the main link in economic institutions, economic organizations (corporations)" (Alpatov A.A. 2016).

This is confirmed by the growth of collective (self-managed) enterprises (often bought out by work collectives) which are already "fruitfully competing with "bastions" of hired labor" (Toksanbaeva M.S. 2006). Workers are actively involved in the management of enterprises in many countries around the world. In the US, the creation of economic prerequisites for the diversification of equity capital and the strengthening of middle-class positions on this basis has largely been made possible by the ESOP (Employee Stock Ownership Plan) program (Khabibullin R.I.2016, Khabibullin R.I., Zhuk S.I. 2017).



The purpose of this article is to disclose the content of the collective enterprise concept, the principles of the operation of such firms, as well as the potential advantages and disadvantages of collective economy management and operation.

## **2. THE CONCEPT OF A COLLECTIVE ENTERPRISE**

The theory of a collective enterprise (self-managed firm) originates from a publication of the paper "A Firm in Illyria: market syndicalism" in the American Economic Review journal made in 1958 by B. Ward. In this work, based on certain assumptions made by the author, Ward has proposed a self-managed firm model on the basis of an analysis devoted to the Yugoslavian industrial self-management experience. B. Ward came to the conclusion that, from the point of view of economic efficiency, a self-managed firm is inferior to a traditional capitalist firm.

A well-known American economist in the field of self-management, J. Vanek has presented in the 1970s his version of the self-managed firm model based on the use of predominantly borrowed capital, the owner of which has the right to recover the value of the property transferred for use, and also, to a part of company earnings, but not to control it.

The legal basis for the economic power of workers in such a firm is not property rights, but the personal and equal rights of all employees in it (so-called labour and employment rights). J. Vanek emphasized that democracy is based mainly not on property ("possession does not give the right to control production"), but on the inalienable right of each worker to participate in the production management and in the distribution of its results (Vanek J. 1970).

An American economist C. Gunn concluded: "The data show that self-managed firms are much more effective than traditional ones, even when the level of efficiency is measured by a small number of parameters. From the social and human perspective, self-managed firms have significant advantages over those firms which structure reflects the class conflict of society" (Gunn C. 1986).

Increasingly, modern researchers in the field of economics and management are of the opinion that the organizations of the future are exactly self-managed firms based on the principle of economic power of the work collective. For example, F. Lalu in his work "*Discovering the future organizations*" describes the so-called "turquoise organization", the core of the organizational culture of which is *self-management* (Lalu F. 2016).



In the opinion of many economists, adherents of the theory of collective management forms, the main feature of a self-managed enterprise is *collective ownership*. However, the participation of members of work collectives in the ownership of enterprises is not the only and decisive factor confirming the high level of work ethics, motivation and productivity (Ignatskaya M.A. 2006).

In our opinion, other criteria are more important for the definition of the concept (content, characterization) of a collective enterprise. In particular, they are the voluntary nature of the association of individuals implying a conscious desire of employees to carry out their activities on the principles of collective management. This fact raises the level of motivation of labor, maximally brings the interests of workers closer to the interests of the enterprise. Within the framework of such an association, employees of an enterprise with collective economic management can effectively participate in the processes of self-management.

From the above it follows that a collective enterprise should be viewed as an association of "stakeholders interested in the results of its activities, in which decisions are made by its members" (Presnyakov V.F.1991).

A member of a collective enterprise is solely an individual who personally participates in its activities and in a general meeting of employees, at which strategic and operational (at the grass-roots level) managerial decisions are taken on the principle of "one person - one vote" or delegating the right to participate in managing to his/her representative. Such a principle forms the democratic character of making managerial decisions at the enterprise (irrespective of the size of the share which belongs to the employee in the total amount of the capital of the firm or a stock of shares in the company belonging to him/her).

Thus, the collective enterprise is understood as an enterprise of any organizational and legal form, the work collective of which participates by voting in the adoption of a significant part of decisions on the management of the enterprise on the basis of the principle "one person - one vote" and controls their implementation.

The Russian corporate management system assigns a secondary role to the workforce so far (Rasskazov S.V. 2013). In our country there is a small number of self-managed enterprises in the form of joint-stock companies of employees. At the beginning of 2017 there were only 40 of them.

### **3. PROS AND CONS OF COLLECTIVE ENTERPRISES**



The results of the study of nature and specifics of the functioning of collective enterprises make it possible to point out to the following advantages of collective economic management.

*1. Sustainability in crisis conditions (higher survival potential).*

The study carried out by the International Federation of Workers from Cooperatives covers 50,000 European cooperatives of workers in 17 countries of the European Union for four years of work (2009-2012) (Roelants B., Dovgan D., Eum H., Terrasi E. 2012). The results of the study show that collective enterprises in a cooperative form, for example, in Spain and France were able to avoid job losses and closures during periods of crisis - unlike ordinary companies.

*2. Increase in the level of motivation of employees.*

As a rule, employees of an enterprise with collective management are responsible fulfilling their duties realizing that the efficiency of the company's functioning as a whole depends on the quality of their work.

*3. Balance of interests for participants of enterprise activities.*

The results of our survey of employees of cooperatives and public enterprises (incl. Lipetsk region) showed that the problem of harmonizing the interests of participants in corporate relations in collective enterprises is less acute than in traditional private capitalist firms.

*4. Higher degree of reinvestment.*

A significant advantage of collective enterprises, in particular joint-stock companies of employees, is the refusal to apply the traditional scheme of dividend distribution between external shareholders in order to retain their capital and struggling for it with competing firms.

*5. Reducing the level of opportunism in the behavior of employees.*

The activities of employees as full members of the enterprise (having the same rights to own the capital (property) of the enterprise, as well as the right to dispose the results of their work) and participants in management processes at this enterprise mitigate the severity of the work alienation problem.

*6. Favorable staff morale at work.*

The results of a number of studies indicate a favorable staff morale at the enterprises with the collective management, and, consequently, a small number of conflicts in the work collectives of these firms and a low level of their severity.



*7. High adaptability of collective enterprises to the performance of social functions.*

The level of social responsibility in enterprises with collective management is higher than that of enterprises of other organizational and legal forms. This is reflected in the development by self-managed firms of their social infrastructure and maintaining a sufficiently high standard of living for their employees (Nekrasova O.V., Khabibullin R.I.2016).

Opponents of the supporters to the collective entrepreneurship theory give various arguments against the development of such a form of management.

*1. Ineffectiveness of making group decisions.* The reason is the low level of knowledge of ordinary employees in the sphere of management. However, this problem is successfully solved by introducing a system of continuous education, awareness and upbringing of participants (members) of a collective enterprise.

*2. The "free rider" phenomenon.* Usually the "free rider problem" is associated with gaining the benefit of teamwork without bearing a proportionate share of labor efforts. However, the free rider problem, as has been proved by Elinor Ostrom, the Nobel Prize winner in economics for 2009, could be successfully removed, if the basic principles of institutional design are fulfilled under the conditions of collective management of shared resources (Ostrom E. 2010).

The implementation of these principles increases the probability of a collective management success, for example, within a self-managed firm (Belokrylova O.S., Ermishina A.V. 2012.).

*3. Difficult access to external sources of financing.* As a rule, financial control by the banks of collective enterprises is more strict in comparison with firms of the traditional type. However, Russian collective enterprises (joint-stock companies of employees) develop mainly only at the expense of their own funds, without attracting borrowed resources.

*4. Difficulties in solving the problem of attracting and retaining highly qualified management personnel.* The main reason is the limitation of the remuneration of all categories of employees.

*5. Reduction of the management functions in enterprises with the collective form of management when making managerial decisions to mechanical execution of decisions made by employees.* In such conditions, self-management in a collective enterprise will be only declarative.



6. *Employees who are not co-owners of capital (property) of collective management enterprises have a risk of acquiring the status of second-class citizens. This problem arises with the expansion of production in the process of attracting additional human resources. New employees should be either fully delegated with the rights of participants in collective enterprises (which their veterans who have earned money to expand production, may not agree with), or be recruited as wage employees. (Nekipelov A.D. 1996)*

7. *The existence of a problem of protecting the rights and interests of the minority of the enterprise collective (an individual employee or groups of employees) under the tyranny of the majority. Most members of work collectives are able to suppress the legitimate rights and interests of an individual person to a greater extent than a private owner can do.*

#### **4. CONCLUSIONS**

The main feature of a collective enterprise is the *self-management of the work collective*: the basis for formation of mechanisms for involving employees in the management of the firm. At the same time, a fairly wide range of economic entities of collective entrepreneurship, guided in their activity by the principles of democratic management and participatory management, can fall under the definition of a collective enterprise.

Collective enterprises have both supporters and opponents of their existence. Supporters of these enterprises in their arguments point out to advantages of the latter in comparison with private firms, found in the real process of management. Arguments of opponents are theoretical in nature and, for the most part, refuted by practice.

The preservation of the advantages of collective enterprises and elimination of their shortcomings is possible on the principles of increasing the scale of the partnership of labor and capital in making decisions in the field of production management and distribution of its results.

#### **5. SUMMARY**

Creation of a collective enterprise of any form of ownership and organizational and legal form on the basis of the conceptual provisions of collective management and their reflection in the internal regulatory documents of the enterprise stipulates the development (expansion) of the economic activity sphere for collective forms of production organization. Implementation of the participatory management principle by a



collective enterprise implies that its employees receive transparent information about the socio-economic activities of the firm for use in making management decisions. The openness of information causes a fairly high level of quality management, the trust of participants in economic activities to each other and to their management, countering corruption and abuse of power.

One of the most common forms of self-management implementation is significant participation of employees in property, but it does not appear to be a sufficient condition in itself. The presence of self-management employees without their "binding" to the enterprise through property relations creates risks for its sustainable development. Therefore, when determining a collective enterprise, it is necessary to take into account not only the participation of employees in the property, but also the real economic power of the work collective, what requires formation of a qualitatively different corporate governance culture aimed at broad involvement of employees in managerial and economic processes.

## **6. ACKNOWLEDGMENTS**

The work is performed according to the Russian Government Program of Competitive Growth of Kazan Federal University.

## **7. REFERENCES**

- Alpatov A.A. 2016. The effective (anti-crisis) structure of the corporate ownership. Moscow: Yurlitinform, p. 216.
- Belokrylova O.S., Ermishina A.V. 2012. Collective actions agencies (regarding housing self-organization model). // *Terra Economicus*, Vol. 10, No. 1. – p. 175-176.
- Boltrukevich V.E., Vzorov V.N., Naumov A.I. 2014. Motivating Knowledge Management in Organization. // *The Bulletin of Moscow University 24, Management*, 1-2, p. 32.
- Carr M.D., Mellizo P. 2013. The Relative Effect of Voice, Autonomy, and the Wage on Satisfaction with Work // *International Journal of Human Resource Management*, Vol. 24, № 6.
- Gunn C. 1986. *Workers' Self-Management in the United States*. Ithaca: London. Cornell University Press.
- Handel M.J., Levine D.I. 2004. Editors` Introduction: The Effects of New Work Practices on Workers // *Industrial relations*, Vol. 43, No. 1.





- Ignatskaya M.A. 2006. The new economy: the experience of structural-functional analysis. Moscow: KomKniga, p. 160.
- Khabibullin R.I. 2016. Collective enterprise model: the basic characteristics // Strategic Planning and Enterprise Development (Seventeenth All-Russian symposium materials) / ed. by Corr.-memb. Kleiner G.B. Section 1. Theoretical problems of strategic planning at the micro level. Moscow: CEMI, p. 152-153.
- Khabibullin R.I., Zhuk S.I. 2017. Foreign collective entrepreneurship models: Lessons for Russia. // Journal of Economy and Entrepreneurship, Vol.78, No. 1.
- Lalu F. 2016. Opening the organization of the future. Moscow: Mann, Ivanov and Ferber.
- Nekrasova O.V., Khabibullin R.I. 2016. Collective enterprise and traditional company: comparative analysis of corporate cultures. Economic Revival of Russia, Vol. 47, No. 1.
- Nekipelov A.D. 1996. Essays on the economics of post-communism. Moscow: CISN, p. 109.
- Ohana M., Meyer M., Swaton S. 2013. Decision-Making in Social Enterprises: Exploring the Link between Employee Participation and Organizational Commitment // Nonprofit and Voluntary Sector Quarterly. Vol. 42, No. 6.
- Ostrom E. 2010. Managing general. The evolution of institutions for collective action. Moscow: IRISEN, Misl Publ., p. 176.
- Presnyakov V.F. 1991. Model behavior of the enterprise. Moscow: Nauka, p. 39.
- Rasskazov S.V. 2013. Regularities of the corporate governance system and the implications for the organizational development of Russian companies. Moscow: Publishing House «Nauka», p. 132.
- Roelants B., Dovgan D., Eum H., Terrasi E. 2012. The Resilience of the Cooperative Model: How Worker Cooperatives and Other Worker-Owned Enterprises Respond to the Crisis and its Consequences. CECOP-CICOPA Europe. . URL: [http://www.cecop.coop/IMG/pdf/report\\_cecop\\_2012\\_en\\_web.pdf](http://www.cecop.coop/IMG/pdf/report_cecop_2012_en_web.pdf).
- Toksanbaeva M.S. 2006. Social interests of workers and the use of labor potential. Moscow: Nauka. p. 125.
- Vanek J. 1970. The General Theory of Labor-Managed Market Economies. Ithaca: London: Cornell University Press..