

Joint-Stock Companies of Employees: Current State and Efficiency of Functioning

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Abstract: The study presents the results of study of modern state of Russian corporative associations with employees (public enterprise) gives their classification according to sectoral and regional features. It is noted that in Russia this business form has not developed sufficiently. In adequate territorial commensurability of distribution of public enterprises. The study presents the experience of supporting formation of employee-owned companies in Lipetsk region. It has been also given a comparative analysis of the results of activities of employee-owned companies with the results of companies functioning on basis of the other business models. It is considered the working efficiency of the companies with employees as shareholders in Russia and the USA. The object of analysis of comparative public company performance in the Russian Federation was selected a company with employees as shareholders “Naberezhnye Chelny Cardboard and Paper Mill (CPM) Named after S.P. Titov”. In the USA, it was studied employee stock ownership and enterprises based on it, developing within the framework of so called plans ESOP (Employee Stock Ownership Plan). It has been demonstrated that public companies have considerable advantages in relation to enterprises of the other forms of ownership concerning both control of production and investment efficiency and socio-economic development of collective. It has been disclosed the factors of socio-economic sustainability of such enterprises based on the interest of the labor collective in the products of their labor. The background of such interest is an opportunity of participation of each employee in management of company and his high social protectability.

Key words: Companies with employees as shareholders, labor-managed firms, efficiency, labor collective, modernization, democratization of property, ESOP (Employee Stock Ownership Plan), institutional environment

INTRODUCTION

Analysis of state of affairs in the Russian industry indicates that among the Russian enterprises, particularly at the enterprises of real sector, an unsatisfactory situation has emerged (Kleyner, 2013) According to the survey of “The Russian Economic Barometer”, 36% of the leaders of Russian companies estimate their financial standing as “poor” a share of industrial enterprises not buying equipment for two or more months running accounts for 78% of normal level (Anonymous, 2014a, b).

One of the major reasons of crisis of many enterprises is usually ignored or underestimated. It is a question of preservation, though in new guise, of authoritative system of economic power on the enterprise floor, based on a loafiness of the employees, which cannot but have a negative impact on solvency of an enterprise and its social stability (Bukreyev and Rudyk, 2007).

Decision-making is closed on the director general who is clothed with practically dictatorial power. Similar

system of management of enterprises allows to solve the current tasks but at the same time deprives the enterprise of prospect as does not allow to engage employees in the production process in full, determine its potential (Klyuchko, 2007).

In this connection of special interest are the forms of management, organically combining the benefits of individual employees and the enterprise in general, on the basis of their interest in efficient allocation of resources. In practice, this form of management is realized at the enterprises based on employee stock ownership or so called Public Companies (PC) Close Corporations with employees (CCE).

The objectives of this study is analysis of current state and efficiency of functioning the companies with employees as shareholders (public companies) and also evaluation of their development prospects. The object of investigation the enterprises, based on collective employee ownership (close corporations of employees or popular enterprises).

MATERIALS AND METHODS

Current state of development of JSCe in Russia: The state of joint-stock companies of employees rather accurately reflects the processes taking place in the Russian economy as these are the enterprises with various industries and cooperative ties with organizations of different ownership forms and sometimes are enterprises forming a company town (Zimina, 2012).

Currently, the number of PE in Russia remains catastrophically low level compared with the experience of the seen enterprises in other countries. Since the late 1990s, there have been registered about 200 companies with employees as share holders. But recently, there is a tendency to reduce their number. Moreover, the reasons for reducing the number of such enterprises is not economic, but, increasingly political and legal (Bestolkov, 2014).

The study of Khabibullin (2013) describes the companies, being at the stage of reorganization or liquidation. Excluding this factor as of May 2014, Russia had only 43 actually operating JSCe. A substantial proportion of the companies belongs to the sphere of agriculture.

Most of the Russian joint-stock companies of employees 36 have a number of up to 500 people. Enterprises with the number of employees from 1,001-2,500 people are 3 popular enterprises.

The companies of employees as share holders are represented in 23 regions of Russia, with nearly half of them (21 PE) is concentrated in three regions (Lipetsk and Sverdlovsk regions as well as in Kabardino Balkaria).

Significant is an experience of development of collective forms of management in the Lipetsk region where was initiated a unique program for Russia: the regional target program development of popular enterprises in the Lipetsk region for 2012-2014 and long-term state program development of cooperation and collective forms of ownership in the region of Lipetsk for 2014-2020 which provides an increase in the number of popular enterprises in the Lipetsk region up to 43 by 2020.

In order to support the creation of PE, administration of the region of Lipetsk has provided the following measures: the provision of subsidies for reimbursement of the costs of organization expenses associated with the creation of PE; grants for PE and CSC for reimbursement of expenses (30%) to acquire fixed assets; grants to legal entities to create PE for reimbursement of expenses on legal, advisory support and training of employees. Additional support measures introduced since 2014: grants to CSC and PE for compensation of expenses to

pay the first lease payment of 30% of the cost of equipment; loans of up to 5 million rubles for up to three years and CSE and PE through the Regional Fund for Support of Small and Medium Enterprises.

Many maintained scepticism about the idea of support for the creation process of popular enterprises. There were doubts that the program will not work at all. But, the result has justified itself. For a year and a half, in the region, there are eight PE in such socially important spheres as housing and communal services (4) passenger transport (2) public catering (1) as well as in industry (1). The plans are creation of PE on road construction which will provide travel and transportation services. This suggests the Lipetsk region as a Pilot region in which popular enterprises have been established the "from scratch".

RESULTS AND DISCUSSION

Efficiency of Russian companies with Employees as shareholders: One of the questions of principle of the research of joint stock companies of employees is the problem of their effective functioning. Long before the adoption of the federal law on popular enterprises, Glushchevsky (1998) called the structure of people's enterprise to be artificial and unsustainable, attempts of establishment of which are connected, on the one hand with the excessive political pragmatism (political opportunism), on the other hand the lack of normal scientific pragmatism in the assessment of empirical realities.

According to Taranukha (2003) "it is customary to speak of a lower level of efficiency of such enterprises. Their internal efficiency (factors of production) is lower in comparison with the capitalist profitable firms. However, one must not forget the positive impact they can have on national economic efficiency.

Let us try to answer the question are joint-stock companies with employees more effective than traditional companies? For this purpose, a comparative analysis of the results of the popular enterprise with similar "unpopular" companies for the period of the years 2002-2012 has been carried out. The object of investigation was chosen the company with employees as shareholders "Naberezhnye Chelny Cardboard and Paper Mill (CSC) Named after S.P. Titov (hereinafter CPM).

According to the results of the study one can conclude that CPM is not only equal to the similar companies in all the main indicators characterizing the efficiency of financial and economic activity but rather surpasses their indicators. CPM demonstrates sustainable growth in dynamics of production from 2002-2012, far

ahead of its competitors. The mill is a stable leader in net profit. It is note worthy that in 2012, the CPM got a profit which was the highest in the history of the enterprise. The mill is also a leader in working efficiency. And the output of market able products per 1 employee from 2002-2012 had grown by >3 times. The indicators of profitability of the CPM, unlike its competitors, remain quite high. Moreover, under economic crisis of 2008-2009, the indicators of JSCe demonstrate the growth, just when the indicators of analogous enterprises are falling.

The results of the comparative analysis lead to the conclusion that the PE "CPM" is a sustainably developing enterprise: less susceptible to crises phenomena, socially sustainable and cost-effective. It's employees are holders of 100% shares of the PE, they have the right to make decisions, there is a higher value of socio-economic indicators than in their competitors who do not work on the basis of collective ownership with the use of the tools of participatory management. This confirms the thesis that within the general trajectory of the evolution of the structure of corporate ownership, PE demonstrate an effective collective owner even in real conditions of Russian reality (Alpatov, 2012).

In addition to the efficiency, of particular interest is the quality of life of employees at such enterprises. As the results of the study for 2010-2012, social protectability of employees at Russian PE is high enough which provides a favorable psychological climate in the work place and social stability, even against the backdrop of a crisis (Zimina, 2013).

Efficiency of american companies of employees the enterprises withesop: In the USA, the employee stock ownership and the companies based on it have developed with in the frame work of so-called Plans of ESO (Employee Stock Ownership Plan), allowing the employees to buy the company in which they work, at their own expense of the company's revenue (Kelso and Kelso, 2007). Article 4975 of the Tax Code of the USA states that ESOP is a program with defined contribution, the funds of which are invested primarily in the shares of the corporation where the employee works (Zadiraka *et al.*, 2005).

Per stock ownership of employees in 2012 was accounted for about 8% of all US corporate property. The point is about the plans of ESO, retirement saving plans 401k, the plans for dissemination of stock options by employees of corporations. By the beginning of 2012, 28 million people or 18.2% of the labor force were included in the movement (Supyan, 2014.). To the companies that are 100% owned by their employees, one may refer Lifetouch (25 thousand of employees), Penmac (18 thousand of employees), Amsted Industries

(16 thousand of employees), Houchens Industries (153 thousand of workers), etc. (Anonymous, 2014a, b).

Companies applying the plans of employee ownership participation, demonstrate impressive results and their indicators prove to be better than in the companies that do not apply ESOP (Wirtz, 2007).

In the Foreign literature there are many works dealt with the comparative analysis of activity of the companies that have implemented and not implemented ESOP. For example, the study (Park and Song, 1995) which sets out the results of analysis of the ESOP of companies s in the long term. At the same time, it has been revealed a higher ratio of market to book value and growth of profitability of assets.

M. Blair, D. Kruse and J. Blazey have compared the results of a control group of companies with the companies having ESOP. Such indicators of the companies' activity assales growth, increase in the number of employees being engaged and output per 1 employee, have improved after the implementation of ESOP and surpassed the performance of companies that do not apply such a program (Blair *et al.*, 2000).

R. Stretcher and S. Henry appreciated the performance of companies that implemented ESOP in the years 1998-2004, having analyzed the data of 196 companies (Stretcher and Hern, 2006). The data of each company having implemented ESOP were compared with those of similar companies not applying the system of attraction of employees to participate in the ownership. It was found that the return on assets, return on sales and the ratio of cash flow to assets of ESOP companies were higher than the same indicators of companies not participating in the program.

Among the researchers, there are many critics of ESOP. Thus, according to Nobel Laureate, Paul Samuelson, the ESOP programs are largely myths. But these myths are very profitable businesses, as ESO plans provide significant tax benefits to corporations (Dentzer, 1987).

However, according to Simmons and Logue "the state has in contest able proof that the growth in labor productivity, profit and income of employees, provided by management on the basis of employee ownership, leads in the long term to an increase in revenues from the growth of tax levies. At the same time, reducing un employment and increasing the income of the workers decrease the social costs of the government" (Simmons and Logue, 2001).

Among some Foreign economists there is an opinion that the ESOP leads to isolation of the firm and reduction of innovative activity (Gamble, 2000). Lamberg and the others (Lamberg and Grant, 2003) believe that the use of ESOP generally, may place the economic security and sustain ability of the company in jeo pardy.

S. Freeman notes, there is still a lot of gaps and dis-advantages in the areas like research in the field of ESOP an unresolved and uninvestigated questions on this topic (Freeman, 2007).

Summary: It has been found that the area of the effective functioning of the national economy of Russia is the development of enterprises with the legal form of joint-stock company of employees. The success of the popular enterprises both in Russia and in the USA is based on the interest of employees in the final results of their research, based on the possibility of participation in the management of the company as well as serious social security.

CONCLUSION

Thus, the joint stock companies of employees have significant advantages in ensuring high labor motivation of employee output, overcoming the contradictions between labor and capital, reducing the level of opportunistic behavior of employees, improving the quality of products. The institutionalization of partnerships for coordinating major social and labor interests in the company on the basis of the democratization of the property with the tools of participatory management is a prerequisite for sustainable development of the companies with employees as shareholders.

High socio-economic efficiency of companies with employees as shareholders serve as evidence of the need for wide spreading practice of their establishment. In our view, the core strategy of the optimal development of the national economy should be a system of measures to ensure the effective integration of host motivation and entrepreneurship of the majority of population, overcoming their exclusion from participation in the ownership and management of business entities, the creation of institutional conditions for development of democratically controlled companies owned by their employees.

Of greatest importance is the Federal Law no 99-FZ "On Amendments to Chapter 4 of the Civil Code of the Russian Federation and Invalidating Certain Provisions of Legislative Acts of the Russian Federation", signed by the President of RF on May 5, 2014. Article 66cl. 7 of the Civil Code now provides the definition of the legal status of companies with employees as shareholders as well as the rights and duties of their members by the law relating to the activities of such organizations. Practically, this means strengthening the legal form of "joint-stock company of employees (popular enterprise)" in the Civil Code which can be considered a great success which is to preserve the legal security of people's enterprises in Russia.

ACKNOWLEDGEMENT

This research was performed in accordance with the Russian Government Program of Competitive Growth of Kazan Federal University.

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