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# **PARTICIPATIVE MANAGEMENT – A MODEL FOR ENTREPRENURIAL DEVELOPMENT OF CROATIAN ECONOMY**

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### ***Summary***

*In contemporary globalized environment, economic development is driven by innovations. However, these revolutionary ideas are insufficiently recognized by Croatian scientific circles and therefore, not enough is done to develop instruments that would ensure their effective exploitation. Investing into intellectual capital, rather than into material capital, has become the crucial factor in creating competitiveness. Participative management, founded on a joint ownership of both the material and intellectual capital, should serve as a basis for creating a model of contemporary entrepreneurial development of Croatian economy.*

***Keywords: economic development, science, intellectual capital, model of entrepreneurial development, participative management***

## **1. DEMATERIALIZATION OF VALUE CREATION – INTELLECTUAL CAPITAL**

The reached level of scientific, technological and overall social development requires radical changes in the positioning and performance of entrepreneurship as the accelerator of economic development. In conditions

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where secondary raw materials are being replaced by natural ones and where, due to biotechnology, land rent becomes a product of knowledge developed in a laboratory rather than a product of the land itself, the desired level of economic development cannot be achieved on the basis of managing tangible production factors. The factors of development have thus been shifted from tangible to intangible, i.e. knowledge. A systematic knowledge development of management of innovative value creation has thus become the factor of competitiveness and economic development. The competitive advantage is achieved through entrepreneurial management of resources that are now based on knowledge and no longer on natural resources.

Intangible values, the role of intangible resources in creating value and management of both the intangible resources and intangible values have the central place in today's economics. An economy run and based on material goods/products is gradually, but surely, being replaced by an economy run and based on the non-material – ideas, concepts ... knowledge. (Tainter, 2007). Economic development is more and more a result of investments into intangible goods, intellectual and organizational, than into tangible ones such as buildings, machinery etc.

The nature of competitiveness and the role of workers in the processes of creating value have been completely altered by the technology based on microelectronics. The routine activities are now being done by computerized, automated and robotized machinery and devices and the workers are becoming the managers and creators of the non-routine activities in creating added value for customers and the company. Information and knowledge are the object and the means of their activity. They have become a modern company's and/or economy's fundamental capital – the intellectual capital. Information technology has confirmed Karl Marx's theses that production forces in a given stage in the development lead towards the change in production relations. Unfortunately, his followers did not have the patience to wait for evolution; they did not realize that the reverse process does not function. Information technology has done for workers and the society in general more than all the revolutionaries put together. However, economic development also requires an adjustment in the social, cultural and institutional conditions of the environment in order for the intellectual capital to become fruitful.

Knowledge is like an uncut diamond; it is rarely valuable if it is raw. It has to be stimulated and integrated with the purpose to serve as capital. The specific features of intellectual capital are its personal and social qualities, from creation, through management to turnover. The owners of intellectual capital have more complex objectives than those owning material capital. In order to reach the final result, their individual results must be interrelated. They must focus themselves on contributing to a common product, common result and common goal. They must function on equal terms, understand and acknowledge their cooperators and be responsible for the outcomes of their joint activity. Intellectual capital, being an effective implementation of knowledge into the production

process, represents the fundamental driving force of contemporary economic and social development.

Participative entrepreneurial management is a prerequisite of economic development in conditions in which organized and targeted knowledge becomes the basis for creating value of both the product and the company. (URL: [http://www.hita-academy.com/cpod20\\_1.htm](http://www.hita-academy.com/cpod20_1.htm)). The development of the value system that prefers common goals, common work and life philosophy, that puts man, his values and aspirations first, is the fundamental level of managing sustainable economic development in contemporary conditions of creative knowledge economy. Contemporary participative management develops entrepreneurial technologies of organizing and directing specialized competences and knowledge. By doing so, it develops intellectual capital and takes on the social role of directing entrepreneurial ecumenism of economic development in the economic, ethical and ecological spheres of activity.

Investments into knowledge - a strategic factor in the development of individuals, companies, economies... have become crucial in achieving success in the globalized economy of today. (URL: <http://politika.com/tag/ekonomija-znanja>). The number of researchers in relation to the overall workforce and investments into research and development in percentage of GDP, as the key indicator of importance of human resources in a given economy, show Croatia's position and its potential competitiveness in the globalized environment at the turn of the 21st century (Chart 1).

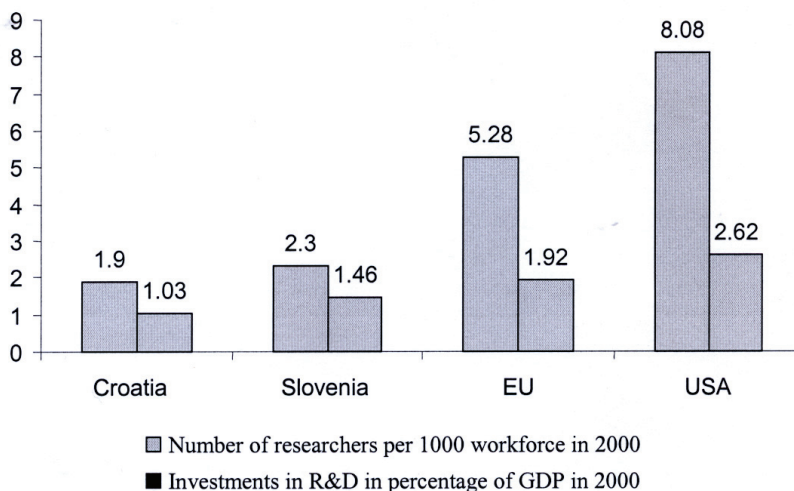


Chart 1: Investments in knowledge

Insufficient and unselective investments into the development of human resources, i.e. into research and development result in the low competitiveness of Croatian economy on the globalized market. Based on the adopted strategy,

Croatia should put maximum efforts into systematically developing (tripling) its investment into human resources as the foundations for the development of the society's value system and the promotion of entrepreneurial management of creative knowledge as the fundamental factor of creating added value and competitiveness of a contemporary economy.

## **2. THE SOCIAL ASPECT OF CAPITAL – COMPANY AS SOCIAL AND ECONOMIC SYSTEM**

Scientific and technological development has promoted the system of economy's developmental potentials – information, communication, knowledge and entrepreneurial management, which require a wider, i.e. global, area of activity in order to reach their optimum. The proclaimed goal of globalization, within itself, ensures the conditions for a full-scale economic development of all included, on the grounds of information and knowledge as the global and universal resources. The state has been assigned the role of developing mechanisms for institutionalizing the development of scientific, technological, social and cultural environments within their areas.

Contemporary states have been intensively networking their economies, creating interdependent economic integrations, which enhance further standardization and development of *world economy*. Globalization, seen as a process that on the basis of faster exchange of information and knowledge is turning the world into a single and liberal market of capital, goods and services, aims towards a world with no borders in which transnational companies play the leading role whereas the role of individual states is minimized.

The transnational economy is mostly founded on cash flow, rather than on the trade of goods and services. The democratization of technology has fueled the development of another great innovation of globalization – the democratization of finances; the process that has brought about a complete transformation of traditional economy. In transnational economy, cash flows have their own dynamics. Monetary and fiscal policies of contemporary national states are, instead of taking an active part in creating, merely and increasingly reacting to what is happening on transnational currency and capital markets.

In a globalized economy, besides the traditional production factors - land and physical labor, money is also becoming a secondary factor since it can be acquired anywhere and is thus no longer a factor that can be considered an advantage on the world market. Entrepreneurial management, founded on the innovative correlation of available information, communication and knowledge among partners, has become the fundamental factor of competitiveness in a contemporary and globalized managerial economy.

The world market is assuming the mass-scale form characterized by a large scale diversification due to the consumers' constant demand for different

versions of the same product that are personalized and original. Research and development have thus become very crucial in creating products with additional value, i.e. with more knowledge content. To achieve cost-effectiveness of the growing expenditures into research and development, products have to be placed on bigger markets. The companies are more and more concentrating themselves on the most profitable areas. As a result, they are no longer focused on creating a product's value but have become a link in the chain of creating the value of the *world product*. Intercorporational cooperation i.e. the strategic alliances with other companies diminish risk and facilitate value placement. Cooperative, participative management and allied entrepreneurship is a growing trend that offers developmental possibilities for Croatian and other small economies. (URL: <http://www.quantum21.net/?id=577&-page=4>).

Small companies can also be transnational. The strength of transnational companies does not lie in their size – IT is equally profitable in the production processes of both small and big companies. Their strength lies in entrepreneurial participative management. They through different levels of participation and cooperation drive and tend to govern over somebody else's capital rather than one's own. Internal market and internal entrepreneurship is a benchmark for further efficiency of transnational companies, whereas the complete control of the environment, due to strategic alliances, is a foundation for growing business performance.

The social aspect of fundamental economic resources requires changes in the system of entrepreneurial management. Stock based organization of entrepreneurship that has separated ownership from possession is now supplemented by separating ownership from management. Intellectual workers and management, that work in and run the company, are becoming the true capitalists based on their capital – knowledge. Knowledge has become the fundamental creator of product and company added value, i.e. the true capital of contemporary economy. It (re)merges possession and ownership, as well as executive and managerial functions of the company. By merging these two functions with knowledge as capital, which gathers turnover only if organized and directed, represents the basis for the *reincarnation* of joint ownership and development of participative entrepreneurship run by management. The social aspect of material and intellectual capital also promotes the social role of the contemporary company, which is developing itself as a social and economic system with the primary goal of its activity being the achievement of a balanced system of all key stakeholders' objectives. (Zekić, 2007). Profitability has become the prerequisite for social responsibility of management and intellectual workers.

These and all the above mentioned rapid changes affect the stability of the company's structure used as a fence between the company and the environment. Its instability affects man's relation with the organization, and at the same time it humanizes the relation between the company and its workers as well as with its social environment. An informal organization in which the

management runs and gives support to teams of creative specialists that see themselves as innovative entrepreneurs, is becoming a reality, and it gradually rejects the so far rigid structure of company's management and activity. The future task of the economic theory is to analyze the ways in which this processes could be institutionalized to their maximum, and the task of the economic sociology is to study and propose specific forms of social relations that would optimize economic processes (Polanyi, 1999).

### **3. PARTICIPATIVE MANAGEMENT – SOCIAL FUNCTION AND MANAGEMENT'S RESPONSIBILITY**

The developed form of stock ownership and entrepreneurial organizations distinguish ownership and possession of material capital. Furthermore, modern resources of economic development decompose possession of material capital and the management of its turnover. The owners of intellectual capital – management and intellectual workers, by merging ownership and possession of this new type of capital, legally take over managerial functions in the company, thus becoming the most significant factors of modern economic development. Intellectual capital is a basis for future development of innovative entrepreneurship, economic development and social welfare.

Carriers of development require effective motivators in order to optimize efficiency of their potentials in the interests of owners of material capital and the society in which they operate. (Drucker, 2007). Future development of entrepreneurship and sustainable economic development require redistribution of decision-making and rewarding between owners of material and intellectual capital. The power of knowledge imposes the need for redistribution of decision-making powers – from the owner of material capital towards management and intellectual workers – owners of intellectual capital. The success of entrepreneurial development, economy and society in general requires a practical uprising of the Holy Trinity of Economics, i.e. the merging of tangible (material) and intellectual capital (energy) results in the development of the company as a socio-economic system, and the merging of economy and ethics results in a sustainable economic development.

Current level of scientific, technological, economic, social and cultural development requires a revision and institutionalization of consistent distribution of revenue:

- Entrepreneurial interests to owners of the financial capital;
- Entrepreneurial profits to entrepreneurs;
- Salaries to workers.

The real entrepreneurs and creators of added value in today's economy are the management and intellectual workers. They direct capital into programs

that are expected to yield above average; they organize the company and ensure financial resources to carry out programs. Their activity is creational, as well as developmental, and they tend to lower risks of entrepreneurial activity of achieving added value for all stakeholders. Profits are just an indicator of entrepreneurial success and a means for accomplishing developmental objectives of management and workers' entrepreneurial activity. Accordingly, management and workers should make decisions about their distribution. Participating in managing the processes of creating added value, as an inevitable consequence of modern development resources, should be accompanied by the participation in the yield, i.e. results of managerial activities, as a prerequisite of future sustainable economic development.

By developing an institutional system, the owners of the financial (tangible) capital should be granted the possession of preference shares; whereas the employees should be entitled to common shares out of the gained profit above the cost of capital. Preference shares holders would have the right to priority dividends, but no right of management. The holders of common shares, i.e. the management and workers would have a say in the distribution of profit into development and/or dividends, but would in distribution participate only as secondary shareholders, upon payment of dividends to external, preferred shareholders.

The proposed model protects developmental, creational entrepreneurship from the speculative one, establishing a natural relation between creation and distribution of new created value (Levitt and Dubner, 2005). The owners of the financial capital, due to separation of possession and management of capital, and for their passive role in the processes of creating added value in a contemporary economic development based on the management of entrepreneurial intellectual capital, are left to play their natural role – entrepreneurial control and regulation of entrepreneurial success of a company's management as a system of creation of a new values. Therefore, they should participate in the distribution of the profit, since their operations on stock markets, allocation of capital into profitable programs, enabling their realization, as well as by its reallocation encourage innovative entrepreneurship of the management and workers as original creators of added value, i.e. profit.

This model disables speculative takeovers directed at eliminating competition and gaining short-term profit. The facts leading to the development of participative management system are in contradiction since the development of tangible capital diminishes the management's power over its turnover whereas the development of technology strengthens the power of workers in the managerial processes of the company.

Entrepreneurial management and intellectual workers, the modern capitalists of knowledge that use and suffer consequences of company's performance, incorporate the developmental dimension of entrepreneurship and the social responsibility of the company into the very essence of their existence

and actions. Even Spinoza in his “Ethics” says that: “Ethical understanding departs from the creative cause of existence but also from the very essence of the matter.” The system of corporate management should be institutionally adjusted in order to incorporate Croatian tradition as well as positive elements of Anglo-American and European systems.

The open system of corporate governance, along with the fundamental role of institutional investors (pension funds, insurance companies etc.) and capital market, and the two-level management - the Board of Directors, which manages the company’s business and the Supervisory Board (representatives of social, material and intellectual capitals) which oversees the realization of a balanced system of goals of all company’s stakeholders – would represent a solid basis for a entrepreneurially successful and socially responsible management control, acting as a social function which primarily accelerates sustainable economic development and social welfare.

#### 4. CONCLUSION

Management's and intellectual workers' participative entrepreneurial management, based on the developed system of “joint ownership” of material and intellectual capital, is a precondition of a dynamic sustainable development of Croatian economy. Institutional development of the corporate governance system in which the dominant role in the managerial structure is held by management (intellectual capital) and in which institutional investors have the dominant role in the ownership structure of economic subjects would stimulate entrepreneurial efficiency and economic dynamics, while the supervision done by the representatives of social, material and intellectual capital would ensure the social responsibility of the management and the development of a company as a socioeconomic system in the society. The development of the social and cultural environment promoting a system of value in which the creative, goal-driven knowledge represents the fundamental capital of economic and overall social development, is the basis for designing a modern model of entrepreneurial development of Croatian economy.

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## **PARTICIPATIVNI MENADŽMENT – MODEL ZA RAZVOJ PODUZETNIŠTVA HRVATSKE EKONOMIJE**

### ***Sažetak***

*U suvremenom globaliziranom okružju, ekonomski razvitak pokreću inovacije. Ipak, ovakve revolucionarne ideje su nedovoljno prepoznate od strane hrvatskih znanstvenih krugova pa se stoga nije dovoljno ni učinilo kako bi se razvili instrumenti koji bi osigurali njihovo efikasno korištenje. Investirati u intelektualni capital radije nego u materijalni capital postao je ključni factor u stvaranju konkurentnosti. Participativni menadžment, koji se temelji i na materijalnom i intelektualnom kapitalu, trebao bi biti baza za stvaranje modela suvremenog razvoja poduzetništva hrvatske ekonomije.*

***Ključne riječi: ekonomski razvitak, znanost, intelektualni capital, model poduzetničkog razvoja, participativni menadžment***

***JEL klasifikacija: M19***

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