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OPERATING PRINCIPLES OF YUGOSLAV PUBLIC ENTERPRISES 1/

by

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1. Introduction

Yugoslav organizations of associated labour (enterprises) are managed by workers within a system of workers' self-management and its operational mechanisms. Yugoslav enterprises passed under workers' management control in 1950, while the present system of self-management in organizations of associated labour (OAL) is legally founded on the Yugoslav Constitution of 1974, and bases itself on the Associated Labour Act of 1976 for the practical execution of the principles of self-management.

Self-management in the OAL, which forms the most important basis for self-management in the society as a whole (by means of the delegational system) is founded on three main principles:

1. Social ownership of the means of production, which are therefore not owned by the state or by the individual OAL, but by the society as a whole and managed by workers in the OAL. This signifies that the workers managing and developing an OAL are bound by their own interests and goals, by the interests and goals of other OALs with which they are connected through business, and by the interests and goals of the society as a whole;

2. The purpose and motive of the management of the OAL is the maximum creation of income, that is, new value added;

3. All basic matters concerning the creation and allocation of income, as well as all other important matters concerning the operations and development of the OAL are decided by the worker directly in the basic organization of associated labour (BOAL) through personal decision making of all the workers by two possible means, namely by a public vote at assemblies (meetings) of the workers of the BOAL, or by a secret vote at a referendum.

Measures on the implementation of the most important decisions that have been taken by the workers directly are decided by the workers indirectly.
through their delegates at the workers' councils, through executive committees of the workers' councils, and through the proxies and authorities vested on the business managing organs, for the most part on professional matters. Business managing organs are either individual (manager), or collective or collegiate (managing board).

II. The basic Organizations of Associated Labour (BOAL) and the composite Organizations of Associated Labour (COAL)

It has been stated that all basic matters concerning operations and development, creation and allocation of income are decided by the workers personally and directly in the BOAL. What, then, is the BOAL?

The BOAL is the basic economic unit of the Yugoslav economy, and in this function it is also a delegational base in which workers elect their delegates on the workers' councils and other self-management organs in the economy, and on other delegate-based organs in the society. The BOAL is constituted by an agreement on its constitution, reached by the workers during a referendum with secret vote. Three legal conditions must be met in the act of constitution: first, the BOAL must consist of a technologically complete division of the production or other business process; secondly, the BOAL must form a division of production (business) separate in itself to the degree that business results, i.e. income, can be measured and accounted for; and thirdly, the BOAL must form a division of the production (business) process on a scale which guarantees full possibilities for self-management decision-making by the workers. In practice this means that a BOAL which would employ, say, several thousand workers, cannot be established, as these workers would not be in a position to decide directly on the matters of the BOAL.

Should these three conditions be met, the workers are obliged to constitute a BOAL. The workers therefore decide on whether the above-mentioned conditions are fully met, and not on whether to constitute a BOAL or not, once the conditions are fulfilled.
The BOAL guarantees the workers actual self-management and their unique rights in all important matters of business, but it does not give them the right to operate as an independent corporate entity. For this reason, various BOALs must unite into a work organization. How many and which BOALs are to unite into a work organization is determined by the workers, with the Associated Labour Act prescribing the following conditions to be met by this decision: a work organization should consist of BOALs that are connected through common economic purposes in the production (business) process, and vice versa, the incorporation of a BOAL into a work organization is necessary when it is a condition for the work organization to operate successfully and obtain best business results. Figure 1 gives the self-management structure of a work organization comprising several BOALs.

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Fig. 1: Self-management structure of a Work Organization comprising several BOALs.

The level of the independent self-management organization of the workers is achieved only in the work organization, making the work organization the true corporate unit of business life and practice. On account of this it is
the work organization and not the BOAL which is, as a rule, the framework within which workers organize those specialized services that are necessary to business and which supply the workers with appropriate professional background to their self-management rights and activities. All these services, such as the divisions for sales, accounts, development, personnel, legal matters, etc. constitute themselves as a work community of common services (or a number of work communities of common services). Figure 2 shows the plan of a work organization.

![Diagram of a work organization](image)

**Fig. 2: Plan of a work organization.**

A critical remark is in place here: some BOALs misunderstand the role of the work organization and attempt to take on the functions of a work organization and act as a full business corporation independently instead of cooperating collectively with the other BOALs that make up the work organization. Such activity on the part of the BOAL is uneconomical.

Workers in the BOALs may decide that the work organization into which the BOALs are incorporated, should unite with other work organizations into a yet more widely integrated business complex: the Composite Organization of Associated Labour (COAL). Decisions on the incorporation of work organizations into a composite organization of associated labour are not obligatory; such decisions may be made by the workers on the basis of an
evaluation of the common interests of two or more work organizations, when they show that unified operation of certain business tasks should give better results. In this way, a number of similar work organizations may joint into a composite organization of associated labour for reasons of common export and import activities, common research and development purposes, common engineering, planning or other common purposes. This is the case of horizontal incorporation. Work organizations may, on the other hand, unite into a composite organization on account of the various work organizations representing together a complete productive (business) circuit, from the raw material base down to the final product. This is the case of vertical incorporations. Figure 3 shows the organization with horizontal connections.

![Diagram]

Fig. 3: Organization of a COAL with horizontal connection.

In this case, it is obvious that the work organizations have joined into a composite organization of associated labour for the reasons of ensuring a rational specialization of production programmes and, through this, the supply of a fully furnished home, complete with the house, equipment and furniture; and all this to enable a unified approach on foreign markets.
In the case of a COAL with vertical connection, the work organizations have obviously joined into a composite organization on account of the fact that together they make up the whole chain of meat production, from the production of animal food down to breeding and the final retailing of meat products in shops, restaurants and hotels. Figure 4 shows such an organization.

3. Representation of Workers on their self-management organs.

The workers' council of the BOAL, WO, and COAL are always elected by a secret vote of the workers of the BOAL. Proportionate representation is determined for the election of delegates to the workers' council of the BOAL. The structure of the workers' council of the WO is made up of delegates representing all the BOALs; to the workers' council of the COAL delegates of all the work organizations incorporated in the COAL are elected. Delegates must report to the workers on their activities in representing the workers' interests at meetings of the workers' councils.
Workers in the BOAL also elect their delegates for communal assemblies (chambers of associated labour), while these in turn elect delegates to the assemblies of the Republic (province) and further to the Assembly of the Socialist Federative Republic of Yugoslavia (Federal authorities). Workers in the BOAL also elect their delegates to the assemblies of self-management communities of interest in the field of social activities such as education, culture, health, science, sport, etc., and to the assemblies of self-management communities of interest in the basic fields of the economy such as energy, roads, railways, public utilities, ecology, etc. Through their delegates, the workers together decide on all the important matters of social and economic development. Figure 5 shows schematically this assembly system.

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**FEDERAL ASSEMBLY**

- Federal Chamber
  - 220 delegates

- Chamber of Republics and Provinces
  - 8 delegations

**Assemblies of Republics and Provinces**

- Chamber of Associated Labour
- Chamber of Communities
- Social-Political Chamber

**Communal Assemblies**

- Chamber of Associated Labour
- Chamber of Local Communities
- Social-Political Chamber

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- Delegates
- Delegations

- Working people in BOAL and working communities
- Employed in state organs, etc.
- Working people in agriculture, artisanship, etc.
- Local Communities
- Social and political organizations

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**Fig. 5:** Assembly system.

Business managing organs (either individual managers, or collective managing boards) are elected if they obtain a two-thirds majority in the workers' councils in the BOAL, the WO and the COAL. The candidate for
the post of manager is submitted to the workers' council by a special
competition committee, included in which are also delegates of the commune,
with the aim of enabling the best possible choice of candidate and to ensure
that the procedure for the competition and the election are carried out
according to the law.

Workers' councils may also (though this is not an obligation) elect their
executive committees, vested with minor authorities, and various
sub-committees.

In a secret election, the workers of the BOAL also elect their
disciplinary commission. In cooperation with a delegate of the commune to
supervise the legality of the procedure, the commission deals with and
punishes violations of work discipline. A committee of self-management
workers' supervision is also elected, to deal with faults and irregularities
in the carrying out of business (for example, to determine reasons for loss,
to search out irregularities in the allocation of housing, excessive
travelling costs, neglect of obligations accruing from self-management
agreements, etc.). Workers' supervision cannot sanction such matters
directly, but is empowered to propose sanctioning to the workers' council, the
disciplinary commission, the commune, law courts and other authorized organs.

Delegates in all self-management organs (elected by the workers) and
managers and managing boards (elected by the workers' councils) are
accountable for any unsatisfactory execution of their duties liable to relief
of duty before the expiry of the term for which they have been appointed. In
cases of major faults and difficulties (as for example in cases of recurring
loss) the communal assembly may dissolve the workers' council and remove the
manager or managing board.

Mention should also be made of the important role of the trade union in
matter relating to elections, to the motivation of workers for self-management
decision taking, to the appraisal of work of elected delegates, and to the
responsibilities of managers and business-managing boards to ensure the
necessary professional background to self-management decisions.
4. Creation of income

It has already been pointed out that maximum creation of income is the economic motive and purpose of the organizations of associated labour in the Yugoslav economy. It is based on the constitutional principle that makes it obligatory for workers of every OAL to constantly enlarge the value of the social assets in their management (factories, trading companies, hotels, etc.). This is realized only through the constant growth of income and the ploughing back of a part of this income into extension of production facilities.

In capitalism, the economic motive force is profit, in Yugoslavia it is income. Income represents new value created in the production (business) process. It is earned when the total value of sales of products or services on the market, which makes up the gross income of the BOAL, is reduced by the money spent on raw materials and other materials used in production, and by the depreciation charges to compensate the gradual running down of production equipment and buildings. Accounts will always locate income in the BOAL, even in cases when it is earned through the sale of products by the WO, or by the COAL as its joint gross income. In such cases, it is shared out to the BOALs in accordance to their individual contribution to the production of the jointly produced and marketed product, these contributions being determined by mutually agreed standards and criteria.

The workers of the BOAL allocate income for their personal incomes (wages and pay), including taxes and contributions from personal income, for accumulation for the expansion of production (business), and for taxes and contributions from income (for example for the less developed republics and provinces, for the budget of the Republic, for certain spheres of education, health, etc.) This is shown in Figure 6 hereunder.
GROSS INCOME

INCOME

Costs of raw and Depre-
other materials ciation
Taxes and contributions
Personal incomes Accumula-

Fig. 6 A simplified plan of the allocation of gross income and income of the BOAL.

The plan outlines the fact that the basis of self-management is the creation and allocation of income in the BOAL for its own needs, but also for the needs of the whole society. For this reason workers in the BOAL plan their income in accordance with the business plans, and allocate income in accordance with the results of the annual balance sheet.

5. Planning

The main planning instrument is the five-year plan: Annual plans are drawn up by the organizations of associated labour for their implementation and corrections arising from changing market and general economic conditions. The plan takes account of the prevailing market conditions, development targets and options of the OAL, and development targets and options of the society as a whole. The coordination of plans between OALs and between the OAL and the commune, Republic, Province and Federation is therefore one of the most important aspects and phases of planning. Basic planning targets and tasks are decided on directly by the workers, and the plan of the OAL is finally adopted by the workers' council.

Development targets for the more important sectors of the economy are included directly in plans of the republics or in the federal plan, as for example development targets concerning energy, food production, production of iron and steel, tourism, transport, etc. Plans of the Republics and the Federation will also indirectly include some general directives of concern to
the production of consumer goods, in the form of the various policies on export, foreign borrowing, allocation of investment funds, aid for the faster development of the less developed Republics and provinces, and similar aims.

Workers' councils and workers' assemblies will normally debate on the realization of the plan every three months and take appropriate measures if the planned targets are not being met. They are informed by the managers of this. All the workers are especially thorough in discussing the realization of the plan and its end result - the income is presented at the conclusion of the business year through the annual balance sheet. The allocation of income is also determined then.

The allocation of income can be determined only by the workers in the BOAL directly and personally. This is a right the workers cannot delegate to the workers' council or the manager, such a proceeding being expressly forbidden by the law. Decisions on the allocation of income are on the other hand bound by certain agreed-upon and prescribed social criteria. First among these are the contributions and taxes from income and personal incomes which OALs pay out monthly on the basis of rates determined by the assemblies of the communes and Republics (and only exceptionally by the Assembly of the SFR Yugoslavia) prior to the beginning of the business year. The second and most important group of criteria are represented by the policy which determines that taxes and contributions as well as personal income are to grow slower than the income as a whole. The aim of this policy is to ensure a constant growth of accumulation, that is, of the part of the income intended for the expansion of production, for economic growth and the development of the whole country.

6. Investment Policy

In determining the allocation of income, the workers also decide on the use of the accumulation created. Part of it goes to repay outstanding debts, and part to investments, for example into a new plant or the modernization of an old plant. Such decisions take the form of planned investments in plans of the OAL. In deciding on this the workers are not altogether independent. Certain criteria must be respected that are usually given in plans of the
Republics and in the plan of the SFR Yugoslavia. To show the way these principles are carried out in practice, let us take a look at a hypothetical case of a new factory of (period) furniture reproduction in the Republic of Slovenia, also taking into account the present economic difficulties of Yugoslavia.

The construction of a new factory of reproduction furniture by the enterprise "Our Home" calls for a capital investment of US$ 6 million. The factory will give work to 150 workers. It will require annual supplies of 10,000 m$^3$ of wood. The annual value of output will reach US$ 5 million (gross income), the income is estimated to be US$ 2 million, and accumulation as part of the income US$ 600,000. Sixty percent of the production will be exported to Western Europe and the United States of America. Wood chippings and waste will serve as a primary energy source. In spite of the economic crisis in the country, workers in the enterprise "Our Home" have been justified in planning this investment, which is bound to be approved by the authorized social organs and banks. Why?

The enterprise "Our Home" disposes of US$ 4 million of its own accumulation. US$ 1 million will be contributed by the trading company which is to market the new factory's products at home and abroad, and US$ 1 million is sure to be put up by the bank. The reason for this lies in one of the social investment criteria, stating that the investor must assure at least a half of all the necessary investment funds from his own accumulation. As for the trading company, the contribution of US$ 1 million will ensure additional business through sales of the products of the new factory, and it will, apart from this, also be justified to a share in the new factory's accumulation, proportional to its share in the joint venture; the same share stands for the joint risk undertaken. A special self-management agreement will be signed by the enterprise "Our Home" and the trading company covering all these aspects and stating the precise terms and conditions of cooperations.

Another reason for which the bank will approve the investment is in its orientation to export. Social investment criteria demand that consumer goods industries (excluding food, pharmaceuticals, etc.) export at least half of
their production to foreign markets against payments in convertible currencies. This condition is met, since 60 percent of the production is intended for export.

The social criteria of economical production (an annual income per worker of at least US$ 10,000) are met since the factory will earn over US$ 13,000 per worker.

The factory will have an annual requirement of 10,000 m³ of wood, but 80 percent of this will be supplied from within Yugoslavia. The supply of this wood has already been assured by the Timber Enterprises Association. It will therefore import only 20 percent of its wood requirements, thus meeting the criteria of use of domestic raw materials, small imports and large net hard currency earnings.

Considering that the factory is to produce energy by recycling its own waste material, it will thus fulfill a further social investment criteria, on the prohibition of the use of oil products as an energy source, a policy arising from the fact that Yugoslavia must import most of the oil it uses.

There will be no pollution of the environment from the factory and the ecological criteria will also be met. The factory will be built on grounds that are not suited to agriculture and will, on this account, have no trouble in the approval of the plot by the commune – the plot is directly adjacent to the existing industrial premises of the enterprise "Our Home".

In the preparation of the new investment, the enterprise "Our Home" needs to file no application to any government body in the Federation. Compliance with all the above mentioned criteria is examined only by the Commission for the Appraisal of investments in the Republic of Slovenia. This commission of the Executive Council (Government) of the Socialist Republic of Slovenia produces a written report which does not have the binding power of a decree, but is nevertheless strongly respected by the banks, the communes and various other political organs.
The hypothetical case shown above should serve as an illustration of the basic purpose of this paper: to present a short and perhaps somewhat oversimplified outline of the principles governing the management of enterprises in the Yugoslav economy. The final conclusion is that organizations of associated labour in Yugoslavia are managed by the workers directly or through their delegates in the workers' councils, and whose decisions must - apart from their own interests and goals - also take into account the interests and goals of the society as a whole.

Basic Literature


