

# Enterprise Models in Terms of Sustainability

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## SUMMARY

*The economy, with its driving forces, operating conditions and the consumers' motivation, plays the determining role in the forming of sustainability. The present paper examines a narrower issue within this: the structure of an enterprise model that can be operated in accordance with the requirements of sustainability. The examined model variants essentially differ in risk holder types. The paper discusses two very important criteria of matching to sustainability. On one hand, the smooth operation of the company should not require the existence of the natural rate of unemployment; on the other hand, the driving force related to the success of the enterprise should remain within the company. The model where these two requirements are met concurrently is the working people's enterprise basic model. When the two criteria mentioned above are met, various model variants may be viable. The presentation of the operating conditions and operating mechanisms of these models can build new aspects in the process of sustainability research.*

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## INTRODUCTION

The term 'sustainability' is actually a concise expression of the capability to sustain human life on Earth. The complex issue of the circumstances threatening sustainability includes the growing tendencies in living standards differences and overpopulation, and the issues of food supply and healthcare provision, as well as environmental protection. It should be changed the complex system of conditions and circumstances of human life and man's cultural attitude also to the improvements. There is more and more definite recognition that economic driving forces and operating conditions have the most significant role in the formation of sustainability.

The sustainability research activities related to the economy can be sorted into two main groups. The first group consists of examinations focusing on companies or entrepreneurs. The examinations of the second group started from the general relationships of development and environmental protection and progressed to the economy. In case of the examinations of the latter group, enterprises do not have a significant role: they essentially focus on the over-dimensioned profit interests and the options to reform these.

Sustainability research focusing on the corporate sector can be divided into further sub-groups. Here the

boundaries can sometimes be blurred. The three main subject areas:

1. *Corporate social responsibility (CSR)*. This category includes companies that are taking voluntary responsibility for their impact on society. Here, beyond observing the legal regulations, the management integrates other social and ecological objectives into the company goals. The significant elements of the activities performed in this area may be communicated with remarkable emphasis. Such activities can also be well utilized as a marketing tool (Radácsi 2005). The extension of voluntary responsibility is limited by the competitive market itself. If a company, beyond that required by the legal regulations, spends much larger resources on "social responsibility" than the other competitors do, the company may become uncompetitive within a relatively short period. [In the context of CSR, markedly formulated materials of the EU's regulatory and support ideas as well as stakeholder expectations can be found in European Commission (2015) and Executive Summary (2015)]. Actually, the states would have significant roles in applying legal regulations with powerful social and ecological objectives by even overcoming lobbying and by seeking global unity. Of course, CSR would not solve the essential, system-specific problems but it would at least reduce the pace of destruction to some extent in several areas.

2. *Sustainable enterprises*. The publications belonging to this group examine the sustainability of the company

itself (often including CSR). The central issue is this: what the company should do to stay alive and developing in harmony with its environment. Researchers of this topic and companies see the possibility of advancement in adjusting the company's attitude within the current structure. That is, they wish to move towards sustainability within the established operating order. The target to create a social, environmental and economic harmony receives a prominent role. The paper of Parrish (2007) is a typical example for this. As a starting point, he analyses the question of what constitutes a sustainable enterprise. Then he explains and stresses that both sustainability and development are necessarily human-centered concepts. On this basis, he develops a model named the "concord model of sustainable enterprise design". In this model the concord of hierarchical values are as follows: stakeholder value, enterprise value and social-ecological value. (That is the basic of operating order does not change.)

It is obvious that the sustainability of a company, if it means the options for staying alive, is far different from the sustainability of human life on Earth. Málovics (2011) points out that sustainability cannot be interpreted at the company level. (In his opinion company sustainability is a paradoxical concept, in a certain sense.) According to Málovics, company sustainability is suitable only for structural adjustments. The real issue is which types of companies could be parts of a globally sustainable structure. In his view, it must be assumed that the achievement of sustainability requires a radical change in the structure. Furthermore, only an interdisciplinary approach is suitable to examine this.

3. *Sustainable entrepreneurship, sustainability entrepreneurs.* All the research activities related to this subject typically focus on smaller enterprises and they examine whether the entrepreneurship or the entrepreneur is able to, or might be persuaded to operate the enterprise in accordance with the general sustainability requirements (e.g. Shepherd & Patzelt 2011, or for a summary overview see Rajasekaran 2013). Also, the rational standpoint unfolds that the operation of the company must not break away from the business aspects. On this basis they state that new ways need to be found. In order to develop the directions of change, scientifically founded recommendations should be made. For instance, the paper of Tilley & Young (2009) examines the topic of "sustainability entrepreneurs". The paper concludes that "Sustainability entrepreneurship cannot be achieved within the current economic and regulatory frameworks and requires substantial incentives and rewards, such as 'tax haven' status" (Tilley & Young 2009:88).

*Research focusing on the over-dimensioned profit interest:* The papers urging the restraining of over-dimensioned profit interests are typically created based on the original interpretation of sustainability coming from sustainable development. A significant portion of the research activities related to environmental protection can be classified within this group of publications. These

sources, directly or indirectly, consider the change of the economic operating order as the key issue. The final goal, requiring the most radical change, appears in Lux's (2003) often-cited paper. The author thinks that the whole economy should be converted to non-profit operation and a fundamental change in people's attitudes toward the world is necessary. He considers the restoration of human nature when the profit motive will be replaced by the common good motive.

Vida (2007) calls the evolved social and economic system social and environmental "unsustainability". The author seems to be realistically pessimistic regarding the possibility of changes. He points out that the order of global economic and political power is not interested in change. As a consequence of this, due to the global network of conditions there is not any chance that individual countries would introduce different operating models by choosing individual paths. In addition, a great change would be required in people's attitudes.

The present paper is based on the hypothesis that the driving forces and operating conditions of the economy play the determining role in the development of sustainability. Therefore, the most important scientific task is to carry out thorough research on these relationships and mechanisms of action. The radical transformation possibilities of the operating order of economy are not met. It seems to be reasonable to choose a way that would lead to sustainability by appropriate shepherding of an organic development. The change can be carried out only gradually, by taking a great number of small and big steps. These steps include guiding the direction of people's worldview, culture, consumer scale of values and consumer habits onto new paths. On the other hand, a new types of companies should be established in accordance with the requirements of sustainability, in addition to gradual transformation in the case of the majority of the existing companies.

It cannot be predicted when there would be real transformation options available in the operating mechanism of the economy. However, it would be quite reasonable to prepare for these changes by creating a science-based, comprehensive and versatile knowledge base. The process of change has probably begun, as social enterprises have already become economic factors.

This paper follows a dual goal:

1. to point out the main peculiarities of the modern market economy that cannot be harmonised in principle with the requirements of sustainability.
2. starting from the elements of the economic operating mechanism conflicting with sustainability, to outline the basics of an enterprise model that is in accordance with the requirements of sustainability and through which – if it gains enough weight ratios – the economic organisation background of sustainability can be developed, too.

I developed the basics of the sustainability-compatible enterprise model about three decades ago (Illés 1980, 1982, 1989). The present paper re-interprets the

conditions and relationships of this basic model by embedding them into the present day relation systems. To the best of my knowledge, so far there has not been any other economic research examining the different types of enterprise operating mechanisms from the aspect of sustainability requirements.

This special issue includes papers presenting research carried out on similar issues: sustainable accounting (Demény & Musinszky 2016); establishing and operating social enterprises (Várkonyi 2016); the SLEM model created to measure the market potential of local goods supplied by the entrepreneurs of the Cserehát region (Bartha & Molnár 2016); the place of public work in the employment model of the Cserehát region (G. Fekete 2016); and route-based tourism product development (Nagy & Piskóti 2016).

## MAIN SUSTAINABLE PROBLEMS OF THE ENTERPRISE BASED ON PRINCIPLE OF PRIVATE CAPITAL

### *The Necessity of the Natural Rate of Unemployment*

According to the literature, the natural rate of unemployment is the level at which the work force demand and workforce supply are in harmony. The remaining part is considered to be the highest sustainable level of employment.

When the term ‘natural rate of unemployment’ appears in economics, it seems to be as a theoretical category. The book of Samuelson & Nordhaus (1985) highlights the fact that it became clear for the US administration in 1982 that the existence of a natural rate of unemployment is necessary for functioning of the economy. The book shows the dark side of the natural rate necessity with unusual openness: “The high natural rate of unemployment, with the accompanying necessity to accept much involuntary unemployment, is a central flaw in modern mixed capitalism. And, indeed, the problem seems to be getting worse over time, as higher and higher unemployment rates are necessary to restrain inflation” (Samuelson & Nordhaus 1985:258).

Franz (1989) mentions it as an economic policy practice that the developed market economies build assurances into the system at the time of developing their economic policies to ensure that the rate of unemployment should not drop lower than the level estimated necessary. (The estimated rate of necessary unemployment differs by country and period.) Daly et al. (2011) estimate the current natural rate of unemployment for the United States to fall in the range of 5.6 to 6.9 per cent, and the preferred estimation is at 6.25 per cent.

To be more precise, it should be emphasized that the necessity of the natural rate of unemployment is a basic operating condition only of economic systems in which

proportion of enterprises based on the principle of private capital is of decisive importance. In this system, the main features of the company operations are as follows: the working people get a labour market wage, the owner is bearing the risk for the equity the expense and the profit will be added directly or indirectly to the owner of the equity. The necessity for a natural rate follows from the fact that in this system the human resource appears as merchandise. Labour has its market price and its costs will be accounted for together with other costs. In order for the price of working force to develop in accordance with the standard achieved by a given economy, a real labour market will be absolutely required. In every kind of market some excess supply is needed to prevent the prices from increasing spontaneously. (It is generally known that any shortage drives the prices up.) This excess supply on the labour market maintains the economic balance between the prices and wages. When the level of unemployment falls below the natural rate, signs of labour market shortages are emerging, and the inflation-generating processes will start up. The companies are able to obtain the necessary work force only by promising increased wages.

The system itself was organized so that the unemployed automatically assure control over the wage levels. In fact, retaining unemployment status requires demonstrating the intention to work and appearing before the competent employment agency at regular intervals. Furthermore, the system of unemployment benefits, their decreasing amounts, and their withdrawal after a certain time urges unemployed people to select one of the offered jobs suitable for them as soon as possible. Consequently, the wage demands of unemployed persons will not exceed the average professional level of wages. Strictly speaking, the natural rate has the basic function of holding the wages “on a short leash” (Illés 1993). There may be a number of reasons why this relationship is rarely stated in a straightforward manner even in theoretical papers.

Since the fulfillment of the requirement ensures that a significant number of people willing to work should not find jobs, this system results in the growing rate of inactive groups of people in the long term. (This relationship seems to be evident based on what has happened in the United States.)

### *Separation of Corporate Ownership and Control*

In the period when enterprises based on private capital became the dominant business entity, the owner himself directed the company. The entrepreneur was the owner and the manager in one person. The joint stock company, with its dispersed, individual investors, was created as a mutant of the enterprise of classical capitalism.

In the first half of the last century Berle & Means (1932) had already pointed out the two significant

tendencies developing due to the mutation of companies. One was the growing capital concentration forming due to the increase in the size of companies, the other was the separation of ownership and the power of disposal. They point out that the real power would wander into the hands of managers.

That early academic statement has been confirmed by the real trends of the economy. Based on the experiences of more than half a century, the business economics book of Old & Shafto (1990) highlights the contradictions. The authors explain that there are several arguments supporting the idea that the large joint stock companies are actually under the control of managers. The specially regulated system of general assembly does not give the shareholders a real chance to enforce their interests. The management groups have far more chances to enforce their interests than the shareholders do. The authors write that this is a threat, and in addition often it occurs that the managers enforce their own interests at the expense of the shareholders'. The latter problem is emphatically included in the book of Samuelson & Nordhaus (1985) as well. One of the most typical pitfalls of managers' dominance can be seen in the case of earnings. It is often experienced that while the shareholders' losses skyrocket, the managers earn astronomical sums (Hoós 2003).

The structure and operating mechanism of the joint stock company has established a special business structure that has been partly the basis and partly the driving force of the globalization process. The global world economy has unfolded on this basis. The international companies are enormous, and wield significant economic and political influence.

### *Turnabout of Operation Mechanism Logic of the Economy*

Globalization is a process stemming from an economy that increases the permeability of boundaries between countries and cultures and decreases the significance of these boundaries. The formation of this process is determined basically by economic and political interests. After the turn of the millennium, globalization burgeoned into a complex combined process, which affects all elements of human life and the business environment. The opinions regarding its impacts differ greatly. Sometimes only the benefits are stressed, other times only on the disadvantages are focused upon. In fact, the world has become "a large village" thanks to globalization and this has opened a wide range of development possibilities. Mutual acceptance of different cultures has improved. Significant progress has been made in the development of information technology and acceleration of the flow of information. The standardization of technologies and products has accelerated. As a result of this, the microelectronic mass-produced tools are usable, interconnectable, and interchangeable everywhere in the world (personal computers, smart phones, and so on.) Not only the use of

these products but also their production is "global". (For instance, components of a personal computer are manufactured in different parts of our planet via the coordinated activities of dozens of companies and tens of thousands of people.) Microelectronic mass-produced products are continuously becoming better quality and more affordable. However, the fact that uniform products are being sold in uniform big supermarkets in most large cities of the world is rather considered a detrimental consequence of globalization, since the world is becoming one-sided.

From the viewpoint of the economic mechanism, the main peculiarity of globalization is that it reversed the traditional logic of general market operation. According to the traditional market logic, the product market is the primary one and the product market processes direct the movements of the capital market and the labour market.

By the turn of the millennium, the integration and globalization of the capital markets – that is, the financial globalization – had become the most complete. The system of speculative financial movements started by pressing keys on computers has resulted in gaining much higher yields than with investment in the real sector. The international foreign exchange markets have an annual turnover 26 times higher than the annual emissions in the world. The vast majority of this turnover has a speculative nature (Farkas & Losoncz 2011). The actual amount of money in the world-wide game of speculation is not known; it is not transparent. This process is unpredictable, non-controlled, and non-manageable. As a result of this, the financial market movements broke away from the real sphere, and began their own independent, self-sufficient life. The logic of the operation mechanism of the economy has turned over: the capital market directed by the real economy has been replaced by the real sector directed by money. The financial world controls the real sector with the contradiction that speculation is much more profitable than production. It is well known that in 2008 the global economic (financial) crisis was evoked by the specific operation of the US banking sector.

### *Uncontrollable Corporate Empires*

An organic product of globalization is the internationally operating company. The functioning of states and international organizations allows establishing a type of corporate organization which workings is independent in expanding internationally; however, there is no general public power supervision. A sustainability perspective is problematic that a particular company can formed by so self-organization, which has its roots could not be mapped, effects areas can be unpredictable and enormous health and environmental dangers may include. (One example is the problem of genetically engineered crops.) Today, a significant portion of the transnational corporations operate as independent power centers. Because of their enormous financial power, they can

lobby very effectively. The larger a company is the more force it has in negotiations with representatives of the individual states. The largest companies have an annual sales revenue that exceeds the amount of an average country's annual gross domestic product.

At the turn of the millennium the international companies have been dominant players in the world economy. Their power can outpace governmental possibilities. It is partly due to this that the profit orientation is given stronger emphasis in global development than the anthropocentric approach. Many scientific works warn that the dominance of highly intensive and very short-term profit interests is making the safety of man's physical, natural and cultural environment extremely vulnerable.

Globalization also has a controversial compelling effect, the essence of which is forming almost everything into a unified shape (uniform products, uniform cultures and uniform democracies). Some consider this effect an advantage; others mention it as a drawback, because the benefits of diversity will be lost. The manageability of global systems throughout the world also requires a system of uniform joint stock companies and uniform firms. However, this powerful equality has a rather large risk from the viewpoint of sustainability. Ozsvald's (2013) paper is thought provoking and allows us to map out the way globalization impels the "modernization" of the classic Japanese company.

A well-known fact should also be noted here, that as a result of globalization the polarization of people's material conditions has increased, both within countries and between countries of the world.

In my opinion, it would be necessary to act not against globalization itself, but primarily against its disadvantages. Scientific pursuits which aim to reduce the disadvantages of globalization seem to be very weak. The organizations supposed to search for and explore the detrimental effects of globalization are still rather weak, vulnerable and underfinanced. There are many of them with a battle-cry-like, superficial approach.

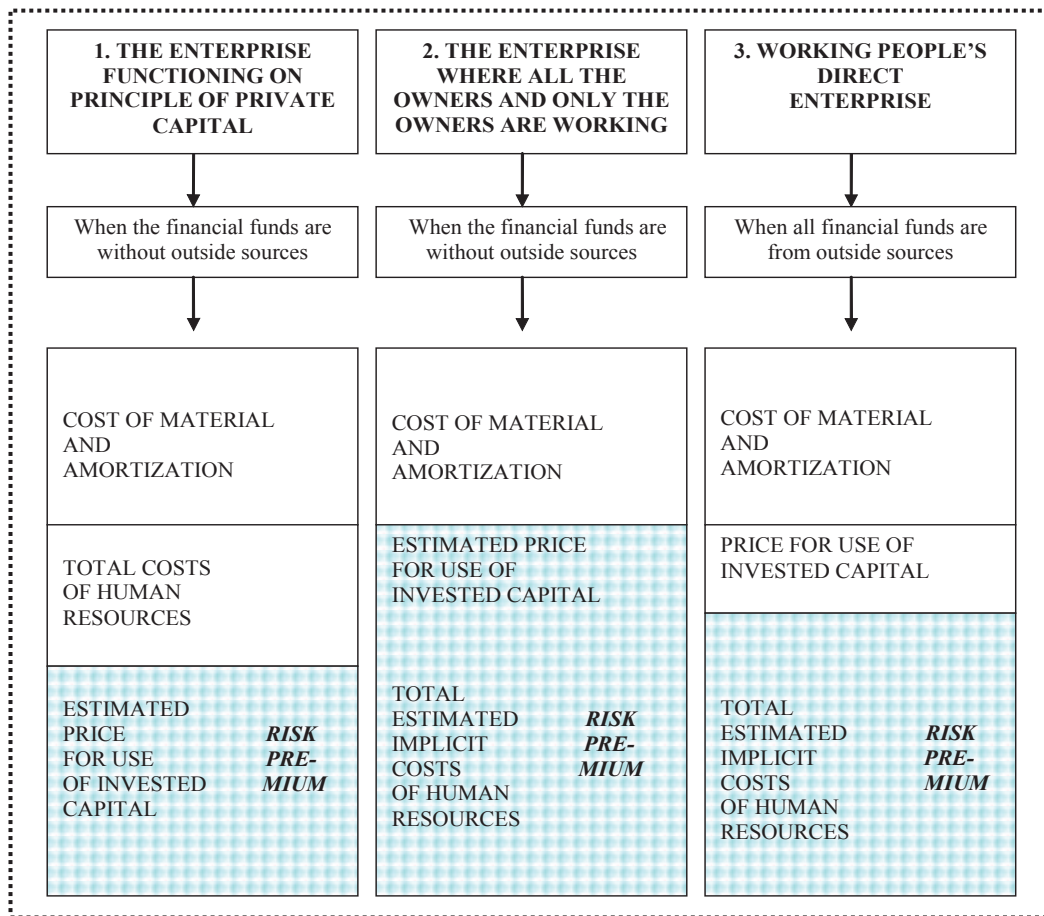
## THE ENTERPRISE MODELS

### *The Three Basic Enterprise Models*

The entrepreneurial motivation is the main driving force that basically determines the company's operation. The business entrepreneur is the risk holder and he earns the risk premium as a compensation for this. The expression of entrepreneur is often used in different and richer content. The paper uses this simplified interpretation for the purpose of model editing.

According to my experience and research results the terms and the mechanism of enterprise operations differing basically by the risk holders. Starting from this connection the main principle of the model editing is to determine who the risk holders are, and the method of risk bearing. According to the risk holders and the source for risk-financing, three basic enterprise models can be formed. They are shown with their revenue structure in Figure 1.

1. The first one is the model of enterprise functioning on principle of private capital. This kind of enterprise is dominant now in the developed world. The principle for the functioning mechanism of the state-owned enterprises is the same as the private ownership model (differing only in the driving force). The risk is charged primarily to the equity.
2. The second one is the model of enterprise where all the owners are working, and only the owners. There are two typical constructions of this in the real world: the classical individual proprietorship and the classical co-operative. The risk is charged primarily to the payment opportunities for working people and to the equity (or the whole property of owners).
3. The third type is the model of the working people's direct enterprise, where all the financial funds are from outside sources. This model is not a common practice yet. The essence of this is that the risk holders are all the people working at the enterprise. The risk is charged primarily to the payment opportunities for working people.



Source: Illés (1997:74)

Figure 1. Basic enterprise models according to the revenue structure

*Estimation Variants of Risk Premium*

The risk premium can be considered as the counter-value of the risk. The realized risk premium can be estimated by subtracting all the accounting costs and the estimated market value for the use of the entrepreneur’s own resources from sales revenues. The remaining part is the realized risk premium itself.

The market value for the use of entrepreneur’s own resources is called implicit cost. However, it shall be noted that the term “implicit cost” is occurring in the literature in another sense as well. The clear definition of microeconomics is suitable for the particular purpose of this paper.

Samuelson & Nordhaus (1985:470) say about this category: “... unpaid factors of production are often called implicit cost, which is a somewhat narrower concept than opportunity cost.” The difference in content between the two categories indicated by the authors is very important in this paper. Namely, the difference between the opportunity cost and the implicit cost is the risk premium requirement. Furthermore, the difference between the realized risk premium and the risk premium requirement may show the adequacy of the level of

management. (This approach is consistent with the business economics concept, but the business economics literature does not deal with these issues.)

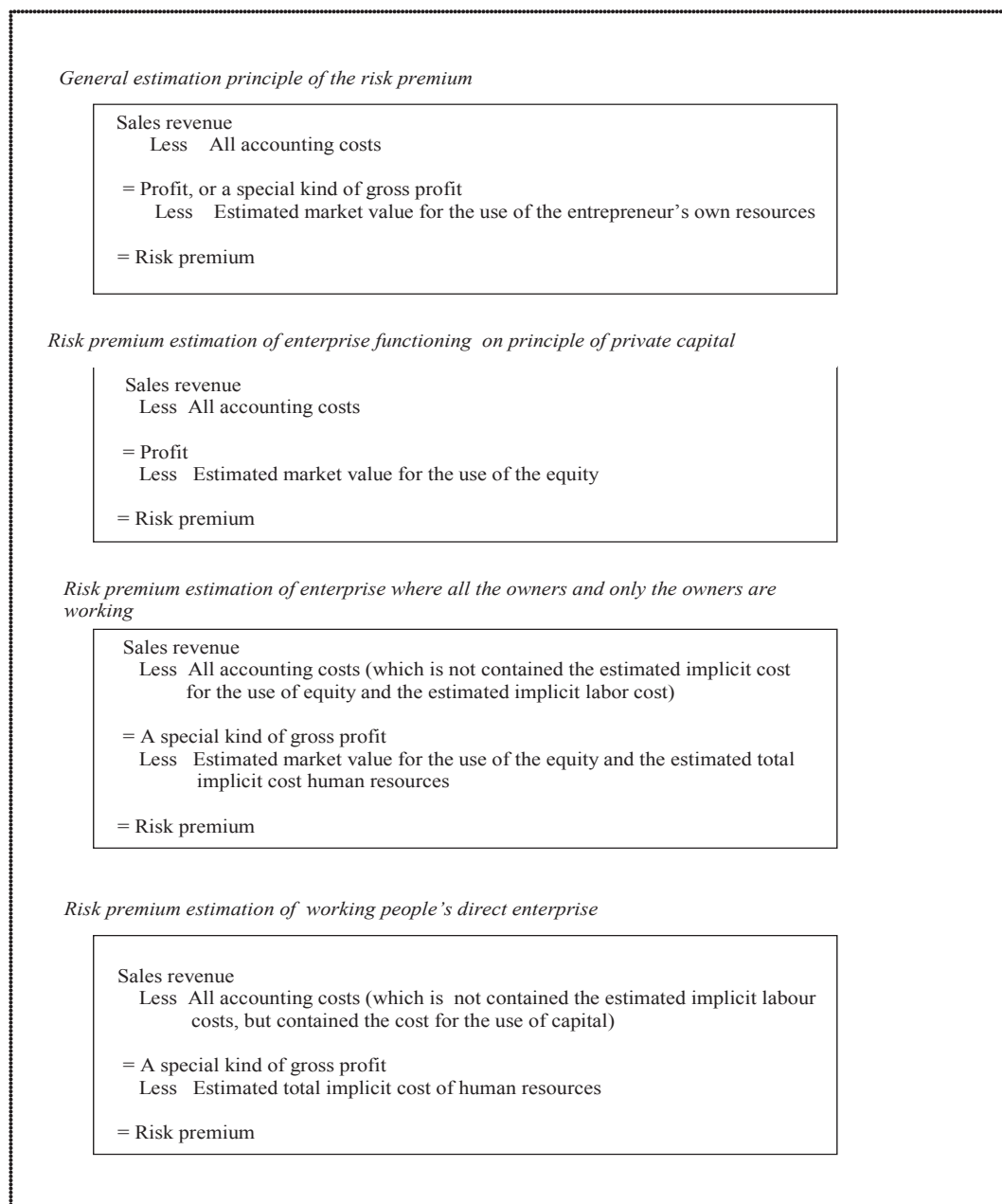
The implicit cost conception of Ekelund & Tollison (1986:851) is similar to the above. Accordingly: “Implicit costs: the value of resources used in production for which no explicit payments are made...”

As can be seen in Figure 1, the inside structure of sales revenue seems to be different only in the way the risk premium appears. The returns of implicit costs and the risk premium are not separated sharply from each other, and the implicit costs include different kind of returns. In the examined models, the basic implicit costs are as follows:

- In the first model, the typical element of the implicit costs is the estimated price for using equity. Most of the profit is this type in large corporations.
- In the second enterprise model, there are two characteristic elements of implicit costs together. These elements are the estimated price for use of the equity, and the total estimated costs of human resources.

- In the enterprise of third model, the risk premium appears primarily in combination with the total estimated costs of the human resources.

The methods for estimating the risk premium concretization according to the basic models are shown in Figure 2.



Source: edited by the author

Figure 2. Estimation variants of risk premium according to the basic models

### *The Relevance of Structural Uniformity*

By comparing the three models it is visible that, despite the differences in their driving force, the structural return components of sales revenues virtually coincide in the various enterprise models. Even the estimated amount of the risk premium shows a global uniformity. This global coincidence is very important since it verifies that communication and even economic

competition between different types of enterprises can really be equal in rank and free of disturbances in a fair economic environment. As a matter of course, the global uniformity of price structures should be understood in a static approach. Shifting dynamics in particular enterprise models as well as in the function of motivation schemes developed within these models may display major deviations which have a considerable impact on product

modernization, on the volatility of resource combination, and on the future scales of risk premium alike.

It must be stressed that the sales revenue structures show that the communication between various types of enterprises and the competition itself can be without disturbances. By adding the possibilities of reasonable mixed sources of financial funds to the model conditions, the models approach the reality without any significant alternation in the character of the original relationships.

## GETTING RID OF THE NECESSITY OF THE NATURAL RATE OF UNEMPLOYMENT

As far as I have experienced and the model examinations have pointed out, the necessity of the natural rate of unemployment is not included in the general terms of enterprise operation. The necessity of this largely depends on the dominant types of the enterprises. In fact, if the balance between prices and wages can also be maintained by other natural and market-conform counterbalances, the basic function of natural rate of unemployment comes to an end. Consequently the main question is: whether this natural and market-conform counterbalance can be established in some other way. The answer is: yes, however the dominant model of enterprises based on principle of private capital needs to be restructured in a significant proportion by another type, and the primary regulatory role of the product market should be reinstated (in addition to operate a proper economic regulation). The transition can be relatively simple, through a kind of slow organic evolution.

There is no close-to-practice research examining the possibility of eliminating the natural rate of unemployment. From the economic theory point of view the Weitzman model (1984) has paramount importance. A separate subsection deals with this model.

### *Compatibility Conditions*

As might be seen in Figure 1, the second and third models of enterprises do not need the market price of the work force therefore they do not need the basic function of the natural rate of unemployment. By these models, the working people are the entrepreneurs as well, and their incomes are controlled directly by the product market.

The restructuring of certain proportion of the enterprises functioning on principle of private capital is mainly possible in the third model. (The required ratio is not known.) In this case the main task is to place the working people in the risk-holder position, and to give the private capital the position of financial funds from outside sources. It must be stressed that this solution in many cases may represent an enormous step forward in

respect of both the safety of private capital and the introduction of better motive power of the effectiveness.

It does not influence the general effect if certain enterprises do not function by the model of working people's direct enterprise. The determination of the critical rate of this can be subject to further research. In the case of presence of appropriate weight ratios of different enterprise models, the accidental high wage bidding by certain companies does not disturb the functioning of the economy. Namely, the working people's enterprises cannot become participants in an inflation-generating wage competition, because the payments are regulated by the product market.

The chance of producing certain products within the global cooperation of companies remains. In addition, the companies with huge capital needs and a low number of staff do not need to be operated according to the conditions of the sustainability compatible business model. It is possible that such workplaces have to pay higher than average salaries but this, if the number of such companies is kept within the allowed limits, will not induce inflation-growing processes. In this case, the product market controls movements on both the capital market and the labour market; consequently, the advanced product market is an operating condition of this economy.

When the working people themselves are the entrepreneur, they do not need the natural rate of unemployment keeping their payments between limits. Thus, the possibility of payments for working people, as entrepreneurs, will not be determined by external wage bargains (and the labour market) but by the value judgment of the product market. By the appropriate corporate structure the effective level of unemployment can be decreased (to any extent) below the level of the natural rate, without any risk of increasing the inflation rate. This, in turn, may result in lower labour costs (with wage level unchanged). The relatively low labour costs enable more work force to be reasonably employed (with other conditions unchanged). Consequently, this also allows the potential output level of national economy to be increased.

This unnecessary condition does not mean the automatic elimination of unemployment in the real world. It is only the "natural rate" that will not be necessary any more. Under these conditions, attending to the unemployed persons and the system of unemployment benefit can be built on new bases. As a conclusion of the above, it is not a conceptual precondition of the functioning of an economy that a considerable share of the labour force circulates from enterprise to enterprise permanently. A minor extent of the fluctuation of labour force between enterprises can be bound to a larger extent of shifting activities from one enterprise to another. It is not inevitable that the working people follow assignments but – after proper complex preparation and planning, and based on a long-term operation management strategy –



the assignment may be brought close to the employee as well.

### *The Problem of the Weitzman Model*

According to Weitzman's (1984) viewpoint, a significant portion of wages should be handled depending on the business profit and this would eliminate the necessity of the natural rate of unemployment. His book about this problem evoked huge interest, and was followed by an unusually large theoretical debate. The cover of the book contains a quote from the New York Times, according to which this is the "Best idea since Keynes".

The most relevant features of the idea are:

- the wages should be given depending on the company's profit (they should be slightly flexible downwards),
- the traditional American business model should remain. One of its most typical features is that the workers should not have a say in the matters of the company.

As Weitzman's book is based on the correlations of economics and uses its categories, the debates are performed mainly on economics basis. Those debate partners who are standing on the practical ground emphasize the practical impossibility of this idea. (The tools and methodologies of economics are not directly suitable for searching for practical economic problem solutions; see Illés (2016).) Gábor (1993) provides a brief, yet professionally exciting overview from this debate.

From a practical aspect, a decisive characteristic of the model is that the private capital characteristics of the companies will not change and the worker's relationship toward the company and their freedom to change jobs will not change significantly, either. At the same time, the company will remain capable of raising the wages within a relatively wide range and even entering a tough competition of wages. This is the main reason that the necessity of natural rate cannot come to an end in Weitzman's model. According to the model structure, the function of the natural rate that ensures the balance of labour force supply and demand and thus eliminates the inflation of wages cannot cease to exist.

## THE MODELS AND THE REALITY

### *Cooperatives and Individual Proprietorships*

The classical cooperative and the classical individual proprietorship both belong to the category of working people's enterprise. The risk is charged primarily to the payment opportunities for working people and to the equity (or the whole property of owners).

The cooperatives can be organized in several areas and subjects and along various membership structures.

From the aspect of the operation of economy, the relevant cooperatives are those which manufacture products or provide services for the competitive market. Due to the fact that those who perform the work are proprietors at the same time, the peculiarities of these enterprise models are less conspicuous. In classic cooperatives, the wages can be paid from the enterprise gross profit (Figure 2). It is a matter of joint decisions how much of the gross profit is spent on development or personal incomes. The basic economic limit of paying the personal incomes is the revenue surplus over the accounted costs. (The separate handling or the re-investment of the implicit costs of capital use can be a subject of several kinds of considerations.) So the payment opportunities are regulated by the product market in this case, as well.

In the Hungarian agriculture, for instance, the classical cooperative form of enterprises had dominated for about 30 years before the change of regime. (There were also state-owned farms.) The results achieved by this agriculture were appreciated throughout Europe, while secondary market effects did not regulate the labour and capital movements significantly. That is, there was no unemployment and the operation of the capital market was not characteristic. (The role of the wage regulatory system was secondary.)

In his book on sustainable development, Blewitt (2012) sees the expansion of the cooperative sector as one of the main safety factors of sustainability. The author emphasizes mainly those advantages of the cooperatives which are manifested in the greater security of the workplace, in the calmer working conditions which are free of anxiety and tension and as well as in the more humane version of workplace relationships. The advantages of cooperatives are described abundantly in the literature of cooperatives. However, their appearance in the sustainability literature is a novelty.

From the viewpoint of working people and the human relations of sustainability, the listed advantages are very relevant. From the aspect of the overall economic mechanism, the primary advantages are that the interests related to the survival of a profitable operation should remain within the company and should concern all the cooperative members, and the existence of the natural rate of unemployment is not a condition for the trouble-free operation of a company.

It is a relevant fact that some of the cooperatives operating in the competitive market do not belong to the category of working people's enterprise and are not compatible with sustainability. For example, in Hungary the model representing the largest share of cooperatives cannot be considered a working people's enterprise. This type is rather similar to a joint stock company than to a cooperative. The development of this peculiar variant can be traced back to circumstances of the change of regime around 1990, especially to the acquisition of lands used jointly by the cooperatives (Zsohár 2011). Nevertheless, the Hungarian scientific direction partially accepted a political conception according to which the classical

cooperatives are outdated. Szabó (2005) thinks that the “one member, one vote” rule in cooperatives is obsolete and it is connected to a cooperative concept which is unable to adapt to the environment. (This approach is far from being in accordance with the international concept related to the cooperative principle of one member, one vote.) In Hungary, the unfavourable judgment of the classical cooperative has become typical (Sebők 2013).

The revenues of classical individual proprietorship are also formed by the value judgment of the product market. Regarding the re-investment and the personal use, the entrepreneur makes decisions freely. The decision options are limited by the revenue surplus over the costs. (In case of such proprietorships, it is a frequent legal solution that the entrepreneurs are responsible for the proprietorship commitments with their own entire assets, i.e. liability is not limited.)

### *The Concept of Working People’s Direct Enterprise*

As previously mentioned, this model does not work in practice. If the personal sphere of entrepreneurs and of the people working in the organisation becomes the same, the conflict of immanent interests will disappear. To bring the driving force mechanism of interests in harmony, effective channels of interest enforcement are to be built out and operated. In the case of a working people’s direct enterprise, as a matter of course, the risk takers are primarily all the working people at the enterprise on the one hand, and they will enjoy the risk premium generated by the business as well, on the other hand. (The estimation formula of the risk premium can be seen in Figure 2.)

As much payment can be distributed to the working people in this sort of enterprise as recognized in the product market prices above the costs (including the price for use of invested capital as a special debt cost) in the long run. This fundamental relation nevertheless, can be conveyed to practice after substantial tuning only. Several examples:

- accumulating of adequate reserves for relatively constant payments: incomes for disbursement should be made largely independent from the fluctuations of business, for instance, by the application of limited access accounts of working people;
- risk funds creating: acceptable circumstances should be created for funds for bearing the risk, for instance, holding back continuously a part of the income for this purpose;
- maintaining the proper payment ratios: the payment levels of working people with different qualifications should be adjusted to governmental labour policy objectives;
- managerial incomes: the remuneration systems for managers should reasonably be worked out as a function of special gross profit per capita, the average level of qualification and the staff size; and so on.

In this model the primary economic risks will basically be undertaken by the working people instead of the investors. In this case, the investor outside the scope of working people would not really risk his money but is only entitled to get the price for use of invested capital as a special debt cost only. This version of enterprise may bring about huge progress in terms of both the protection of private capital and the conveyance of driving force into the system.

The settling of the account between the capital owners and the company may work by a particular debt system as well. The capital owners lend a certain amount to the company. The company pays a using fee as a reduction of the profit. The capital owner prescribes the amount of the fee as a percentage regulated by the government. The percentage must regularly be adjusted to the viewpoint of resources and values, and with simultaneous attention being given to other regulatory goals of income possibilities.

The essential conditions of the model capable of working are as follows:

- The rate of the fee for using the capital should be in harmony with the given level of development of the given economy.
- The sum, which was a result of the use of human resources, should be passed on to the working people.

### *Social Enterprises*

Social enterprises came into existence as a possibility to support the living of the poor people ousted from the profit-oriented employment sector. As a form ensuring the living of poverty-stricken people, social enterprises have also been playing a more and more relevant role in the developed market economies since the turn of the millennium. Since social enterprises are new participants in economic life, the literature still does not have a uniform terminology for them; the terms used often seem controversial.

The supporters of social enterprises initially assumed that a broader, more accepting definition of this enterprise form could contribute to an increase in popularity and simultaneously in social efficiency. Based on this, highly diversified activities were classified into this category. Later, the recognition that an efficient support system should be created to establish and strengthen social enterprise became stronger. In order to deliver the support more precisely to the recipients, a stricter definition became inevitable (Martin & Osberg 2007).

Regarding the sectorial classification, a decade ago the dominant view was that social enterprises should operate expressly as non-profit organizations. There are even EU documents in relation to this (Futó et al. 2005). However, conducting business activity in a non-profit form is rather controversial. Clearing up this matter was significantly impeded by the fact that there are significant differences regarding the use of non-profit activity as a

term between the literature of United States and Europe (Thomas 2004).

According to today's governing view, social enterprises are business enterprises. Social enterprises unite efficient production processes and social welfare goals in their activities. They seek to achieve a balance between the profit goal and the social goal while keeping financial sustainability and the social effects in mind (CIRIEC 2007; Martin & Osberg 2007; NESsT & Citibank 2012).

Nowadays, regarding both the activity area and the legal structures, several kinds of social enterprises can be established. From these, those variants can be clearly sorted into the practical variants of a sustainability-compatible model where the wages are directly regulated by the product market. Not all variants of the social enterprise are classified into this category. That is, the sustainability-compatible social enterprise does not operate on a private capital principle (not even formally). In this issue, the system of payment possibilities is determining factor.

A social cooperative is a variant of social enterprises. It belongs to the group of enterprises compatible with sustainability. This form can be effectively applied to improve the living conditions of people ousted from the labour market and of the population groups that are becoming poorer and poorer and to help their cultural development. Various types of social cooperatives can be established.

In Hungary, the possibility of organizing social cooperatives has a prominent importance concerning to the gypsy population. After the change of regime, a great number of jobs requiring the lowest level of skills were terminated. Very often gypsy people were among the first to be laid off. This tendency became even stronger as most of the agricultural cooperatives were liquidated (G. Fekete 2005, 2015).

There is a peculiarity that deserves attention. The main economic and social improvement ideas created in the decade after the change of regime suggested that the employment of gypsy population should have been improved mainly by turning them into entrepreneurs. Various research activities were conducted expressly with the aim of helping eligible gypsies to become entrepreneurs. A number of papers were written and many surveys were conducted in the subject (e.g. Krémer 1995, Gere 1997, Babusik 2004). Based on the research, it became clear that the classic enterprises are not suitable to really solve the employment problems of gypsies in Hungary. The main reasons for this are the gypsies' economic, social, educational and health handicaps (G. Fekete 2015). The lack of the necessary level of education creates further handicaps: people become more narrow-minded, their relationships become limited, their negotiation skills and level of acceptance are also reduced (Kállai, 2011). At the turn of the millennium, only 25% of the gypsy population above the age of 19 was actively employed. About 3% of these people were entrepreneurs

(Babusik 2004). Social cooperatives would provide a chance for them to gradually get out of this condition. However, the progress regarding the use of possibilities is much slower than needed (Segešvári, 2014). The operation of a network of appropriately trained, creative consultants who are able to adapt themselves to various situations could help the process with the organization, the definition of activities in order to have more than one leg to stand on, as well as with finding the market possibilities coming from the local competence (Illés 2015).

It should be noted that the unfavourable social judgment of the classic cooperative form presented above affects the organization possibilities of social cooperatives unfavourably, as well.

## MAIN QUESTIONS

The quest for the solutions of sustainability problems is one of the most important tasks of science. From this complex issue, the present paper essentially examines those operating factors of enterprise based on the principle of private capital which are not in accordance with the main requirements of sustainability, and furthermore, which type of enterprise model is capable of eliminating the lack of accordance.

The necessary existence of the natural rate of unemployment is listed among the operation conditions of enterprise based on the principle of private capital. However, this type of enterprise dominates in the developed market economy. This is the rate of people willing to work who must not find jobs in order to ensure the harmony of labour supply and demand. This requirement damages the quality of life in the short term and leads to the growing headcount of inactive layers of society in the long run.

The separation of the ownership and management functions within companies and the resulting growing concentration of capital have laid the foundations of globalization. Corporate empires have emerged that can organize their own activities independently, without public power supervision and on an international level. By having become global, the financial power reversed the operation logic of economy. The capital market took over the organizing role of product market. It would be advisable to reverse this.

One was to transform this situation may be increase of the proportion of working people's enterprises. By doing so, the profit interest would return to its place, that is, within the company. The personal income potential of these enterprises is directly regulated by the product market, so the existence of a natural unemployment rate is not necessary for their operation. If the weight ratio of the working people's enterprises exceeds the still unknown critical level, the natural rate of unemployment will cease to be one of the operating conditions of the

economy. (Unemployment will not disappear automatically, but its necessity would disappear.)

The organic transformation will also require more detailed and fine-tuned economic policy tools enriched with new elements. As is proved, the functional ability of

the economy is not necessarily conditioned by the existence of the natural rate of unemployment. By considering it unnecessary, the need for revision of theoretical schemes is also raised.

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