

# ARITAKE-WILD

Joint Project of the European Social Partner Organisations

## JOINT STUDY ON RESTRUCTURING IN THE NEW MEMBER STATES

Report of the Slovenian National Seminar

Grand Hotel Union, Ljubljana  
Slovenia

16<sup>th</sup> February 2006

Prepared by **ARITAKE-WILD**  
February 2006



This project is organised with the financial support of the European Commission

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### *Introduction & methodology*

The eighth in a series of ten national seminars<sup>1</sup> designed to review and support processes of change management and restructuring in the new EU member states was held in Slovenia on 16<sup>th</sup> February 2006.

The overall objective of the project is to prepare a synthesis of the country dossiers and case studies undertaken in each of the ten new member States to identify common economic and social challenges associated with restructuring. This synthesis will be finalised at a seminar involving social partners from the 25 European Member States to be held in June 2006. The final document will be discussed in a subsequent European Social Dialogue committee.

The objective of the Slovenian national seminar was to discuss the Slovenian country dossier and case study in order to improve the quality of the draft documents prepared prior to the meeting and to identify critical national issues and future challenges associated with the process of restructuring. Additionally, the seminar provided an opportunity to review relevant recent work on the subject of restructuring undertaken at the European level, to discuss the role of the social partners in restructuring and to examine how the European Union can support the national change process.

The seminar was attended by 3 Slovenian employers' organisations and the Slovenian trade union organisation member of ETUC. Also in attendance were representatives from the European social partners; UNICE, UEAPME, CEEP and ETUC and experts. The full attendance list is attached as appendix one. The detailed agenda for the meeting is included as appendix two.

This report provides a structured overview of the discussions held during the day and contains a list of comments and points of particular interest raised by the seminar participants on the country dossier, the case study and relevant EU social dialogue work.

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<sup>1</sup> All the 10 countries that acceded to the EU in 2004 are covered by the project; Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia and Slovakia.

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## *Report of the meeting*

1. Maria Helena André opened the meeting by explaining the purpose of the project as a whole and the role of the Slovenian national seminar within it. Her presentation materials are attached as appendix three.
2. The appointed expert for the Slovenian national dossier, Károly Jókay, presented an outline of the country dossier circulated prior to the meeting. His presentation materials are included as appendix four. Following the presentation, the participants were asked to provide feedback on the contents of the dossier in regard to its factual content, the questions it raised and relevant points which may not have been included.
3. The participants raised the following issues in open discussion. The points listed below have not been edited but, for ease of reading, have been clustered under broad headings that appear appropriate to the writer.

<b>1. Slovenia is not typical of other Central and Eastern European Country new Member States</b>
<ul style="list-style-type: none"><li>➤ When Slovenia compares itself to others it wants to compare itself to more advanced European "model" countries rather than those that reflect less than best practice;</li><li>➤ The Slovenian starting point in the early 1990's was stronger than that in many of the other new member states;</li><li>➤ We do not want to compare Slovenia with Eastern European countries;</li><li>➤ We need to be aware of the issues specific to Slovenia as a small country;</li></ul>
<b>2. Slovenia as a "net exporter" of capital</b>
<ul style="list-style-type: none"><li>➤ Why is Slovenia a net capital exporter? This is a very important question that merits deeper analysis;</li><li>➤ The high level of export of capital by Slovenia to the ex Yugoslavian countries is worrying. It may reflect their importance to Slovenia before their collapse rather than today;</li><li>➤ The tables in the report appear to demonstrate that it is not profitable to invest in Slovenia;</li><li>➤ FDI came to Slovenia when labour costs were lower. Today FDI is flowing to alternative locations. For example some factories bought up in the early 1990's have been closed and transferred, even though they were profitable;</li><li>➤ One should distinguish between Greenfield and other forms of FDI. Slovenia appears not to attract "Greenfield" FDI;</li><li>➤ If productivity levels are not attractive, companies and capital will leave;</li></ul>
<b>3. The Slovenian "soft landing" approach to restructuring</b>
<ul style="list-style-type: none"><li>➤ The shock therapy style of structural adjustment in Hungary does not seem to have been successful. Slovenia is in a good position compared to the countries that took this approach so we should continue in our way;</li><li>➤ Some today seem to want Slovenia to adopt the shock therapy style, we prefer a tolerant economy built on social dialogue;</li><li>➤ Some of the funding invested in restructuring has been badly allocated to save existing jobs. The funds could have been put into new enterprises and skills development. This would have created a more flexible labour force and more flexible labour market;</li><li>➤ Although we are a net beneficiary of the EU the money we get does not necessarily go into profitable sectors;</li></ul>

<p><b>4. Regional and structural differences in employment</b></p> <ul style="list-style-type: none"> <li>➤ Structural unemployment is due to a decline of traditional sectors that originally helped the regions that are now in trouble to flourish;</li> <li>➤ Huge regional differences in pay have important consequences for where educated people choose to work;</li> <li>➤ We need to work towards minimising regional development differences;</li> <li>➤ Structural employment difficulties also require State attention, but the State is trying to opt out leaving the burden on the social partners;</li> <li>➤ Regional unemployment is a major issue. Those municipalities close to borders such as Hungary have the highest unemployment rates. Those close to, for example, Italy have the lowest unemployment rates;</li> <li>➤ The future Schengen border is a major concern;</li> </ul>
<p><b>5. Labour market &amp; education issues</b></p> <ul style="list-style-type: none"> <li>➤ It is women and new entrants to the labour market have the most difficulty finding work;</li> <li>➤ More jobs are lost in Slovenia than are created;</li> <li>➤ Labour migrates into Slovenia from other new member states. We need their competencies even though we have a problem with unemployment due to the number of low and semi-skilled people in our workforce;</li> <li>➤ The problem of older employees being both “expensive” and hampering the entrance of young people into the labour market cannot be solved by just trying to find ways to get rid of them;</li> <li>➤ Some young people have not invested in education the way they should have;</li> <li>➤ We need the labour force to be more mobile;</li> <li>➤ Sometimes workers are not mobile due to the cost of transportation combined with low wages. They do work across the border though when the income is high enough to compensate their travel;</li> <li>➤ Most Slovenians would rather have a job than live on benefits;</li> <li>➤ Our labour costs may be more expensive than Poland but they are less expensive than Austria - so there must be a way for us compete with the stronger EU economies;</li> <li>➤ No one wants to listen when small businesses and entrepreneurs explain what a huge problem the grey economy is for them;</li> <li>➤ We need to invest much more in knowledge and skills if we are to compete with highly skilled labour forces;</li> <li>➤ The education system needs attention, education is too long and the knowledge and skills acquired are not relevant in the labour market;</li> <li>➤ The system of granting education scholarships has not been particularly successful;</li> <li>➤ University research should be more relevant to needs of industry;</li> <li>➤ Non-intensive human resources management within companies is a problem;</li> </ul>
<p><b>6. Labour market regulation &amp; the role of the State</b></p> <ul style="list-style-type: none"> <li>➤ Slovenian legislation is not so rigid that it would hamper national economic growth;</li> <li>➤ Slovenian legislation is very rigid. Most small enterprises are not growing and have the same 1.8 employees now as before we entered the market economy, there are no incentives to grow;</li> <li>➤ It is worrying to hear suggestions that lowering rights might be a key to success;</li> <li>➤ If severance pay were eliminated 4-5 thousand workers would probably be sacked immediately, there would be no alternative jobs for them;</li> <li>➤ Different kinds of rights need to be discussed;</li> <li>➤ We need a consensus on the broader issue of what kind of social state Slovenia wants to be, this is the key to answering many social issues;</li> <li>➤ The State is expensive and is financed by business;</li> <li>➤ If the State does not allow the flexibility needed for companies to earn profits they will</li> </ul>

<ul style="list-style-type: none"><li>➤ move to an alternative location;</li><li>➤ The State must be the one to strike a balance between a social state and profits for employers;</li><li>➤ The current rigid legislation is not conducive to entrepreneurship;</li><li>➤ The tax system must be discussed.</li><li>➤ Employers are afraid to hire as they do not know if they will be able to dismiss;</li></ul>
<b>7. Job creation and business start ups</b>
<ul style="list-style-type: none"><li>➤ We need to encourage a good environment for profit making and entrepreneurship;</li><li>➤ Investments for new business premises are expensive;</li><li>➤ We need both to keep and create jobs, the state budget should be examined for reforms directed towards this;</li></ul>
<b>8. Social dialogue</b>
<ul style="list-style-type: none"><li>➤ We need to find win-win solutions for Slovenia;</li><li>➤ We must not forget the tripartite aspect of negotiations, this is central to maintaining and developing a social state;</li></ul>

#### 4. Following the discussion the EU social partners commented as follows on the issues raised:

- Slovenia is in quite a particular position as a country that has to compete both with high added value, high labour cost countries as well as the opposite;
- Slovenia has demonstrated a major strength in its potential for building the consensus that led to the soft landing strategy. Today the social partners need to find more agile ways to protect workers that reflects the maturity and sophistication of the economy. Denmark, for example, has succeeded by making it easier to dismiss people but by simultaneously providing high levels of support to reintegrate workers quickly into the labour market;
- Would average labour costs be different if the public sector wages were separated out? A high difference between the two can impact on investors perception of the costs of doing business in the country and on the overall functioning of the labour market;
- If the FDI now leaving Slovenia for bordering developed countries is the same as that which initially came in, this is a cause for concern. If capital outflows are because companies do not find it advantageous to stay in Slovenia then the country needs to identify the specific causes of this;
- Slovenia is a small country with the good fortune to have its own multinationals operating in several countries. These companies are

however small in global terms and there are European examples of how quickly this advantage can be lost. To avoid hostile take-overs, companies need to develop and build alliances so they can survive in the global economy.

- Slovenia should be careful not to attempt to copy or transpose specific “ success models”. We all have models that we would like to follow but we cannot transpose them to our national realities. We can however, still aim to achieve the same objectives. The Scandinavian model has been referred to today, but it is based upon a high level of tax contribution by both employers and employees. This does not seem to be something Slovenia wants. The country needs to find an alternative way to reach it’s goal;
  - In order to close the current skills gap Slovenia seems to need improved education both in terms of quality and quantity – this should be linked closely to labour market needs;
  - In the ongoing process of restructuring, the capacity of the state and social partners to anticipate change is crucial;
  - Pushing older workers out of the labour force to allow younger people to enter has been tried unsuccessfully in other EU countries. The older workers no longer contribute tax revenues to the State and instead become recipients of benefits. Another solution has to be found so that as many Slovenians as possible can contribute to the wealth and social security of the country;
  - Consideration of the role of small businesses in job creation requires more attention. An environment conducive to entrepreneurship and good business is really essential. How can this be improved?
  - Regional mobility issues can be addressed, at least in part, through developing appropriate transport infrastructure. There are EU level tools, like the structural fund, that can support such improvements.
5. Károly Jókay summarised the process of restructuring in Slovenia from the early 1990s to 2005 and presented a case study on Gorenje. His presentation materials are included as appendix four. Participants were again asked to provide feedback on the contents of the dossier in regard to it’s factual content, the questions it raised and relevant points which may not been included.

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The participants raised the following issues in open discussion both in response to the presentation and to certain of the comments made above by the European social partners. Again, the points made have not been edited but, for ease of reading, have been clustered under broad headings that appear appropriate to the writer

<b>1. The Gorenje case</b>
<ul style="list-style-type: none"><li>➤ The Gorenje data referred to is almost certainly for the holding company (the Gorenje share company has 10,500 employees);</li><li>➤ Major investments have been made in Gorenje;</li><li>➤ Some people travel 70km to work in Gorenje using transport provided by the company;</li><li>➤ Gorenje has not needed to change its company agreements despite changes in the sectoral agreements. The contract developed in 1991 is still used 15 years later;</li><li>➤ In 1995 when there were strikes they were due to salaries not being paid. Inflation rates were exorbitant and Gorenje was close to bankruptcy. These problems were solved by generating cash flow through shares. This required a lot of trust and turned out successfully;</li><li>➤ Telecom and Gorenje cannot be compared. Gorenje has been present a long time and the company's survival depends on its ability to organise and produce for maximum profit. Telecom has a monopoly;</li><li>➤ In Gorenje there are regular meetings between State, management and worker representatives. The general media speculation that workers are not contributing is wrong. The loyalty of workers in Gorenje proves this;</li></ul>
<b>2. The true incidence of restructuring in Slovenia</b>
<ul style="list-style-type: none"><li>➤ Official figures the number of dismissed workers understate the true case. Very many new jobs are for limited time, not indefinite. Those on these contracts are not listed anywhere as dismissed when contracts are not renewed;</li><li>➤ Where less than 10 workers are dismissed, these are not counted. The dismissals in small companies are therefore not captured in the data;</li></ul>
<b>3. The Slovenian "soft landing" approach to restructuring</b>
<ul style="list-style-type: none"><li>➤ Shock therapy in terms of structural adjustment is not something Slovenians would welcome;</li><li>➤ From the restructuring of the 1990s we learned that certain groups had to be protected from dismissal (sick people, mothers etc.);</li><li>➤ Workers representatives also had to be protected, but this does not mean they cannot be fired. However, the trade union must agree to the dismissal, because if the real reason relates to their activities as workers' representative, we have to be able to prevent that. But of course if a company closes down then everybody has to go workers' representatives included;</li><li>➤ Slovenia is an example of good practice restructuring. We lost 60% of our market almost overnight due to the collapse of former Yugoslavia. With good social dialogue and management we were able to rejuvenate the economy;</li></ul>
<b>4. Social dialogue</b>
<ul style="list-style-type: none"><li>➤ The future is to be found through social dialogue both bipartite and tripartite;</li><li>➤ Trade unions and workers understand the difficulties companies sometimes experience. We are happy to adapt, wait and even work without money for a while if a solution is on the horizon. It is when there is no solution in sight that you strike to get the money you have already earned;</li></ul>

- Our goals are similar, but there are many ways to achieve the same goal – are we prepared to pay the price? We can sit down and work together on finding a model.
- We need to build on good practices that will enable good, stable jobs in combination with flexibility on the side of both employers and employees;

## 5. Labour market regulation & the role of the State

- One has to take into account that the government changed in 2004;
- The new government is more neo-liberal and collective bargaining now is encouraged to take place at company rather than sectoral level;
- A lot of time has been spent convincing the new government that we are part of the bargaining process, that without us there are no agreements and that the simple dismissal of workers for economic growth is not a long term solution;
- The much criticised labour law adopted 2003 is a result of negotiations and consensus and the same is true of pensions;
- The 2003 labour law may be a result of negotiations but it has many loop holes and reflects unresolved issues. A workers contract may not be terminated due to inefficiency which is something we cannot accept as employers. Also dispute processes are unclear. In addition certain categories of workers are over protected. Slovenian legislation is more rigid than EU legislation and this has to change, we need reforms;
- It is possible that legislation is rigid in certain places but this is due to previous violations and misuses. Legislation must protect the weaker side;
- Until 2003 it was almost completely impossible to lay off a worker;
- The government is not taking its responsibility; it wants to shift the burden of solving unemployment to the employers. If the government wants restructuring it should also be actively involved in the process;
- We need to find a solution to prevent a continuation of the wide-spread use of temporary contracts, these workers are hired for 6 months and then the contract is prolonged and prolonged. But, these workers are faced with great disadvantages as there are a number of State and bank services they cannot access;
- Both employers and employees need to be clear on their rights, we do not have a transparent procedure of dismissal;
- Legislation is complex. Even as a lawyer, with all the new layers of law, I find it difficult to understand what is going on. This may not be a huge issue for a large company such as Gorenje that can afford an entire team of legal experts but what about the entrepreneurs who only have their own knowledge?
- It is clear that the 2003 act is a transitional act. From rigid socialism to a market economy is a big leap so this is natural;
- The State is an expensive machine so we do not support employers who do not make their contributions or who pay their employees in "the black";
- Trade unions can strike but employers have no mechanisms to protect their interests;
- It is not just a question of getting resources but also a question of how we use them. If we continue to do what we have previously done with government money, we will not succeed;

## 6. Public/private sector pay comparisons

- The aggregate difference in salaries between public and private sector workers distort the picture. About 68% of the public sector gets less than the 1400 mentioned. Those working in the public sector also tend to have better qualifications;
- In the private sector quite a bit of money paid out is undeclared, you get a minimum salary and the rest in cash;
- In food processing you get a lot of salaries only 10% above the minimum pay, these tend to lower the average;

<p>7. Slovenia as a “net exporter” of capital</p> <ul style="list-style-type: none"> <li>➤ The problems relating to investment have more to do with taxation than with labour costs;</li> <li>➤ There were transition problems where officials in high positions bought companies simply to make money from them and sell them on, these companies now need investment. This cannot be allowed to continue;</li> <li>➤ Capital has left Slovenia due to the tax reforms of January 2005. Many have sold to their family members or taken money out of the country;</li> </ul>
<p>8. Job creation</p> <ul style="list-style-type: none"> <li>➤ 70 to 80% of new jobs created in Slovenia are temporary (fixed-term and not indefinite duration);</li> <li>➤ The most constructive way forward seems to be through a focus on job creation. A set of new measures should be developed. We need to be creative as we don't want to see an increase in differences between the rich and poor;</li> <li>➤ We should be able to find a way to preserve jobs and create new ones; the new jobs should be of a “higher added value” nature. Not for example in the automobile industry which we will likely lose to Rumania in the future;</li> <li>➤</li> </ul>
<p>9. Education, training and lifelong learning</p> <ul style="list-style-type: none"> <li>➤ Restructuring is not just about laying people off, it is about education and training. About 70% of workers are in some form of education or training programme, mostly after working hours;</li> <li>➤ More investment in education and knowledge is needed as we cannot be competitive in the labour intensive field;</li> <li>➤ There are unexplored possibilities. In Slovenia the EU funds for restructuring are always going to the unemployed, why do you have to be unemployed before you can get help?</li> </ul>

6. On behalf of the EU level social partners, Thérèse de Liedekerke, Liliane Volozinskis and Valeria Ronzitti made brief presentations on relevant EU social dialogue work. They referred to the texts on “Orientations for reference in managing change and its social consequences” (October 2003), “Lessons learned on European Works Councils” (April 2005) and the “Framework of actions on the lifelong development of competencies and qualifications” (March 2002). Their presentation materials are included as appendix five.

7. Following their presentations the EU level social partners also commented further on the discussions to date;

- Success in meeting the challenges ahead depends to a large extent on the activities of the social partners;
- Both sides need to recognise that the State has a responsibility to create an appropriate legal environment. It should however do that in a context where it encourages and supports the social partners;

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- The Slovenian social partners were encouraged to use their influence on the governments structural fund submissions. Right now, national governments are beginning to plan and submit funding proposals to Brussels. Part of the EU structural funds relate to human resource development, not only for the unemployed but also for reorientation;
  - Job creation is a crucial issue for Slovenia. Particular focus needs to be put on young people and women;
  - If undeclared work, hidden employment and wide-spread use of temporary contracts are growing concerns, these are symptoms more deep seated problems;
8. The floor was then opened for summarising comments from the national participants. The following issues were emphasised;
- The Slovenian social partners need to work closer together to develop a consensus that can be taken into negotiations with the government on the 2007 – 2013 programme and also on the approach to EU funding;
  - This will require debate on what a sustainable economic strategy geared to future conditions should look like;
  - Promoting greater bipartite dialogue would be an excellent step forward towards combining social and economic development;
  - Tripartite social dialogue must not be forgotten; in the end it is government that defines the legal and institutional framework.
9. At the end of the meeting, thanks were offered to all those involved in the preparation and conduct of the seminar.

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## List of appendices

Appendix one	List of participants
Appendix two	Seminar agenda
Appendix three	Presentation materials – “Introduction to the project”
Appendix four	Presentation materials – “Restructuring in New Member States: Slovenia”
Appendix four	Presentation materials – “Restructuring in New Member States: Slovenian case study”

**The present report represents an expert view and does not necessarily reflect the view of the European Social Partners**