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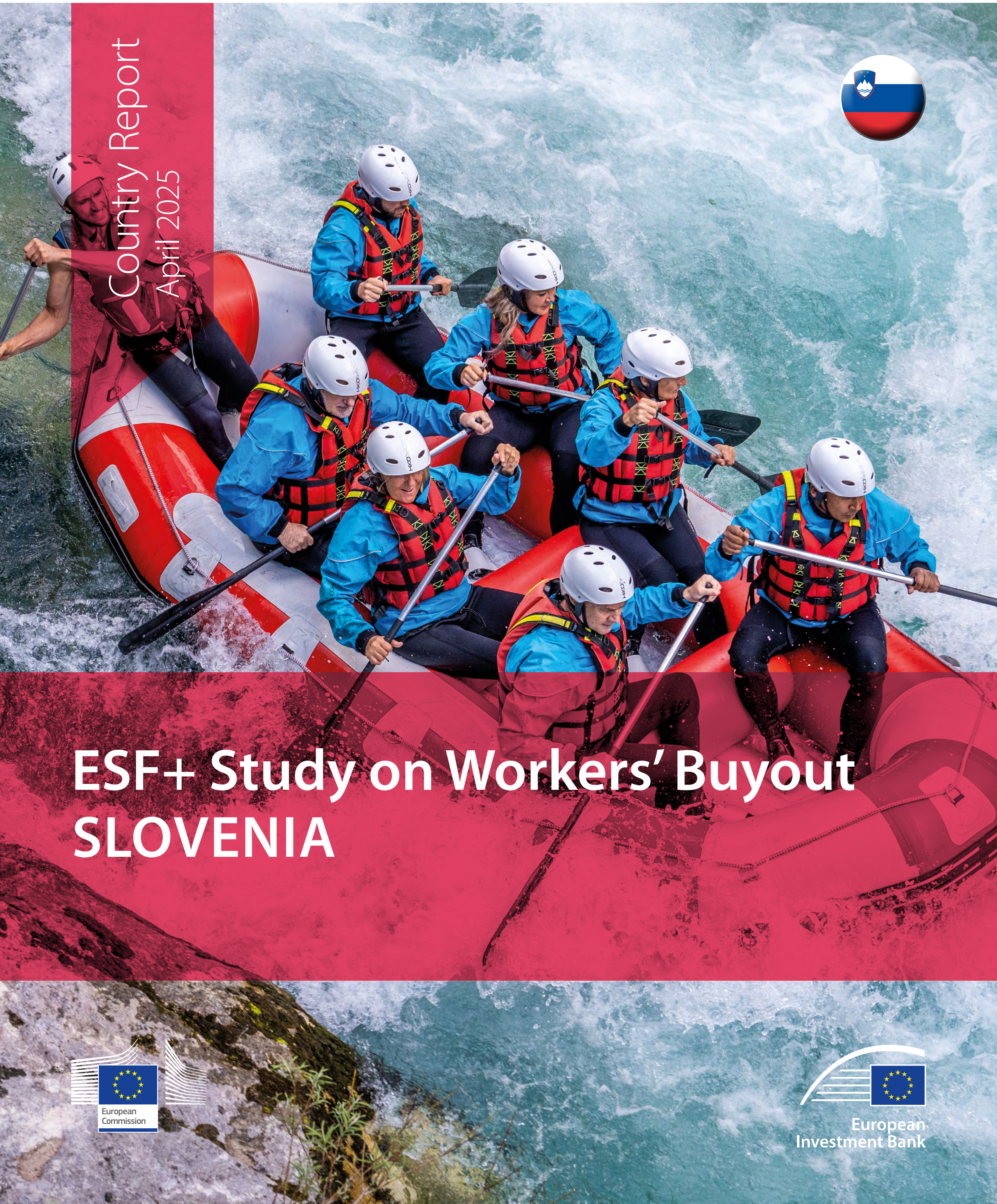

Country Report
April 2025

ESF+ Study on Workers' Buyout
SLOVENIA

European Commission

European Investment Bank

ESF+ Study on Workers' Buyout SLOVENIA

Country Report

DISCLAIMER

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Abbreviations

Abbreviation	Full Name
eurESOP	European Employee Stock Ownership Plan
AAT	Adria Airways Technique
AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services (Agencija Republike Slovenije za javnopravne evidence in storitve)
CEO	Chief Executive Officer
DBS	Regional Bank of Slovenia (Deželna banka Slovenije)
EC	European Commission
EIB	European Investment Bank
EIF	European Investment Fund
EO	Employee Ownership
EOC	Employee Ownership Cooperative
EOT	Employee Ownership Trust
ESF	European Social Fund
ESF+	European Social Fund Plus
ESG	Environmental, social and governance
ESOP	Employee Stock Ownership Plan
ESPP	Employee Stock Purchase Plan
EU	European Union
EUR	Euro
ICA(s)	Individual Capital Accounts
IED	Institute for Economic Democracy (Inštitut za ekonomsko demokracijo)
IJS	Jožef Stefan Institute (Institut Jožef Stefan)

InvestEU SISW	InvestEU Social Investment and Skills Window
LBO	Leveraged Buyout
M&A	Mergers and Acquisitions
MA	Managing Authority
MGTS	Ministry for Economy, Tourism and Sport (Ministrstvo za gospodarstvo, turizem in šport)
MSP	Ministry of Solidarity-Based Future (Ministrstvo za solidarno prihodnost)
NLB	New Ljubljana Bank (Nova Ljubljanska Banka)
PE	Private Equity
SDG	Sustainable Development Goals
SID Bank	Slovenian Developmental Bank (Slovenska izvozna in razvojna banka)
sloESOP	Slovenian Employee Stock Ownership PlanESOP
SME(s)	Small and Medium-sized Enterprises
SPS	Slovenian Entrepreneurship Fund (Slovenski podjetniški sklad)
SPV	Special Purpose Vehicle
UK	United Kingdom
USA	United States of America
WBO(s)	Worker's buyout(s)

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Introduction

This country report is part of the fi-compass ESF+ Study on Worker's Buyout[1] undertaken at EU level with a focus on mapping the WBO frameworks in France, Spain, Italy and Slovenia and aimed at enhancing ESF+ managing authorities' capacities to assess use of their programme resources in support of workers buyouts (WBOs). Compared to other countries involved in this study, Slovenia is lacking in institutional and legislative support for worker's buyouts (WBOs). The private banks in Slovenia are reluctant to finance WBOs (especially leverage-based models), while the capital markets are underdeveloped and do not provide any instruments for WBO financing. The Slovenian Development Bank (SID Bank) confirmed that additional support from the Bank of Slovenia and other financial institutions, such as the European Investment Bank (EIB) and European Investment Fund (EIF), would be beneficial in developing WBOs. In recent years, there have been positive developments in the area of WBOs and employee ownership (EO) in Slovenia, with increased attention from government representatives, the financial sector, the business community and supportive organisations. The Institute for Economic Democracy (IED) has developed the concept of the European ESOP (employee stock ownership plan), a leveraged WBO model, which has been in the past year explored by various WBO stakeholders in different European Union (EU) Member States, including Denmark, Spain, and France. The European ESOP can be employed to address the ownership succession challenge, which is of concern to the EU's small and medium-sized enterprises (SME) sector. The IED has adapted the European ESOP concept to the Slovenian legal framework, in a model called the Slovenian ESOP (sloESOP), which has been implemented in several companies as a proof of concept. The Slovenian government has approved an ESOP draft law framework and is now working to pass legislation and provide a regulatory framework that would regulate and incentivise the sloESOP model.

This country report analyses the demand side for WBOs and financial support in Slovenia, the supply of financial instruments, and illustrates four WBO case studies. These involve two more recent examples of leveraged WBOs, and two cases of worker-owned businesses that currently face a succession problem due to a lack of institutional support in Slovenia. The case studies describe four companies that have already implemented a WBO or are in the process of doing so. Two of the companies are using the sloESOP model, while the other two with direct worker shareholding are facing challenges because they haven't established a systematic worker ownership structure. All the case studies point to difficulties that have arisen because there are no financial instruments available to support WBOs in Slovenia. The final chapter considers the lessons of the report and includes a list a list of recommendations on how to further enhance and promote the WBO model.

1 fi-compass, 2025, ESF+ Study on Woker's Buyout, available at: https://demo.fi-compass.eu/esfplus/workers-buyout.

02 Current WBO situation in Slovenia

Slovenia has a long tradition of financial and governance participation of workers in the economy, which dates to the 19th century, when the first cooperatives were developed. Later, socialist self-management[2] defined the worker-ownership landscape for decades. During the era of privatisation in the 1990s, a mixed model was used to privatise socially owned enterprises, transferring ownership partly into the hands of workers and partly to investment funds. During that period, no regulatory framework was established to regulate worker ownership and WBOs. After a few years, most of the privatised companies were bought by private investors or management.

The subject of WBOs began to reappear in public debates in recent years, encouraged by successful examples involving several Slovenian companies, and by the work of the IED, a Slovenian non-profit organisation initiated in 2018 that works on employee ownership (EO) policy and helps businesses establish sustainable EO structures[3]. This renewed interest from different stakeholders has helped to attract political attention to the subject[4].

2.1 Applicable legal framework

In terms of the existing regulatory framework, there is only one legislative act supporting WBOs through the employee stock purchase plan (ESPP) model, whereby workers can use profit sharing to purchase corporate shares in public corporations. However, there is upcoming legislation that will attempt to provide better regulation and incentives for WBOs.

The Act 25/08 on Employee Participation in Profit Sharing (Employee Participation Act)[5] was introduced to Parliament in 1997 but was not passed until 2008. This Act creates the possibility for tax incentivised and regulated profit sharing within a cash scheme or a share scheme. General provisions of the Act 65/09 on Companies (Companies Act)[6] apply; in Art. 230, the Companies Act regulates the use of net profit. This profit must primarily be used for covering losses and creating legal and statutory reserves. The remaining net profit, not exceeding 50%, may be used for other reserves; if the articles of association so provide, a part may be distributed to the employees and members of the management and supervisory boards[7]. The participation amount is usually determined as a percentage of the annual profit of the company. The Employee Participation Act limits participation to 20% of the annual net profits.

2 Socialist self-management or workers' self-management was a unique political and economic system of the former Yugoslavia that distinguished it from the Soviet system.

3 A search on the COBISS platform, a Slovenian national library information system reveals that between 2013 and 2018, there were only 28 mentions of "lastništvo zaposlenih" (employee ownership), while in the 12 months from 21 March 2022, the number increased by over 60% to 45. Available here: COBISS, *Employee ownership*. [Online]. Accessed on 21 March 2023, available at: https://plus.cobiss.net/cobiss/si/sl/bib/search?q=%22lastni%C5%A1tvo+zaposlenih%22&db=cobib&mat=allmaterials&max=100&pdfrom=01.01.2018.

4 Many in the political arena have started to discuss worker ownership as an economic strategy that could improve the strength of local communities, prevent brain drain, create greener business operations, improve working conditions and wealth of the middle class, and lead to increased added value in the Slovenian economy.

5 Act 25/08 of 29 February 2008 on Employee Participation in Profits (Zakon o udeležbi delavcev pri dobičku). Accessed on 18 July 2023, available at: http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO4654.

6 Act 42/2006 of 4 July 2006 on Companies (Zakon o gospodarskih družbah) ZGD-1, last amended by Trade Secrets Act 22/2019 of 26 March 2019 (Zakon o poslovni skrivnosti). Accessed on 18 July 2023, available at: http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO4291#.

7 Only the Articles of Association can grant members of the management board the right to participate in profit-sharing in recognition of their work contributions (Art. 269 (1) CL).

The Employee Participation Act has created an ESPP model for WBOs. The ESPP is an internationally common company-sponsored programme allowing employees to purchase shares of the company's stock by contributing part of their salary or bonuses during enrolment periods. This provides an opportunity for a WBO, but generally leads to minor employee share ownership. Upon purchase, employees can choose to hold or sell the acquired shares, potentially realising gains. In practice, the ESPP model rarely leads to substantial EO or employee control and is an unsustainable model, since it puts workers in the position of conventional shareholders rather than anchoring ownership with the upcoming generation of employees. The Employee Participation Act in Slovenia makes employees eligible for 70% tax relief on distributed shares if they are held for one year, and 100% tax relief if they are held for three years, up to an annual maximum of EUR 5 000. The Employee Participation Act also exempts the allocated shares from social security contributions. Originally, the tax incentives for distributed shares were intended only for employees covered by collective agreements, excluding management and other key personnel with individual contracts. However, the final version of the Employee Participation Act includes all personnel categories, albeit with a limited annual amount, which may not exceed 20% of the company's profit or 10% of the employees' total gross salaries. Employers are permitted to deduct the value of the distributed shares from the corporate income tax base when determining this amount.

The Employee Participation Act is underused in practice as a tool for WBOs, since it only allows public corporations to engage in ESPP. The latest (2021) update to the governmental registry of businesses that have created employee share plans or employee profit sharing plans, shows that since 2019, only eight Slovenian businesses have used the law to share profits with employees, and only one company (Datalab d.d.[8]) has used the law to create a share purchase plan[9].

2.2 Future perspectives on the legislative framework

The current Act 24/05 on the Government of the Republic of Slovenia (Government Act)[10], explicitly mentions the need to regulate and incentivise EO and different models of WBOs, with the focus on the **employee stock ownership (ESOP) model** for leveraged WBOs through a special purpose vehicle (SPV). The Ministry of Solidarity-Based Future (MSP) has created a Department for Economic Democracy, which will be responsible for the development and promotion of WBOs, cooperatives and workplace democracy.

In 2023, there are two open legislative initiatives from government ministries that aim to regulate WBOs[11,12]. The legislative initiative of the Ministry for Economy, Tourism, and Sport (MGTS) would reform the Employee Participation Act so that the share distribution plan could also be adopted by closely-held corporations. A tax incentive is anticipated, where a business could reduce the tax base for the amount contributed to profit or share distribution, up to a maximum of 33% of annual profits. However, no mechanism is being created that would ensure that ownership remains with the firm's employees; hence, it opens the door for abusing tax incentives to the financial benefit of one cohort of workers.

8 In Slovenia, there are two most common legal structures of the economic firm – d.d. is a conventional corporation, whereas d.o.o. is a limited liability company that resembles a partnership arrangement.

9 The Republic of Slovenia, *Employee participation in profits*. [Online]. Accessed on 28 March 2023, available at: https://www.gov.si/teme/udelezba-delavcev-pri-dobicku/.

10 Act 24/05 of 26 January 2005 on the Government of the Republic of Slovenia (Zakon o Vladi Republike Slovenije), official consolidated text, last amended in 2022. Accessed on 16 May 2023, available at: http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO4434.

11 Obljuba dela dolg, *Strengthening employee ownership*. [Online]. Accessed on 22 March 2023, available at: https://obljubadeladolg.si/vse-obljube-15-vlade/krepitev-delavskega-lastnistva-podjetij/.

12 The government's commitment to the ESOP model in the media is available here:
Bloomberg Adria, *Minister Maljevac: Workers' co-ownership is regulated during this term of office*. [Online]. Accessed on 21 March 2023, available at: https://si.bloombergadria.com/ostalo/politika/17711/ministrski-kandidat-simon-maljevac-ciljamo-na-polovico-nizje-najemnine/news.

Figure 1: Step-by-step explanation of European ESOP transaction (seller's credit).

1

Transfer of shares
Seller transfers shares to EOC, which commits to pay off seller – employees do not yet enjoy full ownership rights.

2

Debt repayment
Employees start repaying seller with % of company's profits equal to % of shares owned by EOC.

3

Individualisation
As acquisition debt is repaid, employees gradually gain individual ownership right over sold shares.

Source: Author.

The second piece of legislation is the **Law on Employee Ownership Cooperative**. It aims to convert Slovenia to the ESOP model, by creating a special purpose cooperative, which would be used to facilitate leveraged WBOs. It introduces to Slovenia a new concept of European ESOP[13], which builds on the best international practices from the United States of America (USA), the United Kingdom (UK), Canada and Australia. The Slovenian government approved the draft law framework in July 2024 and it is expected to enter parliament by spring 2025.[14]

Figure 2: Step-by-step explanation of European ESOP transaction (external financier).

1

Transfer of shares
Seller transfers shares to SPOC, which commits to pay off seller – employees do not yet enjoy full ownership rights.

2

Loan pays seller
The SPOC borrows money to pay the seller with a lump um payment using the transferred assets as collateral.

3

Debt repayment
Employees start repaying the lender with % of company's profits equal to % of shares owned by SPOC.

4

Individualisation
As acquisition debt is repaid, employees gradually gain individual ownership rights over sold shares.

Source: Author's.

Note: EOC stands for employee ownership cooperative.

13 The law will define an ESOP-like mechanism based on the model proposed by D. Ellerman, T. Gonza, and G. Berkopec in a technical paper available here: Ellerman, D.et al. (2022), 'European ESOP: The main structural features and pilot implementation in Slovenia', available at: https://mfgren.org/wp-content/uploads/2022/07/ellerman-piece-on-esops-060722.pdf.

14 Available at: https://www.gov.si/novice/2024-07-10-vlada-potrdila-izhodisca-zakona-o-lastniski-zadrugi-delavcev/.

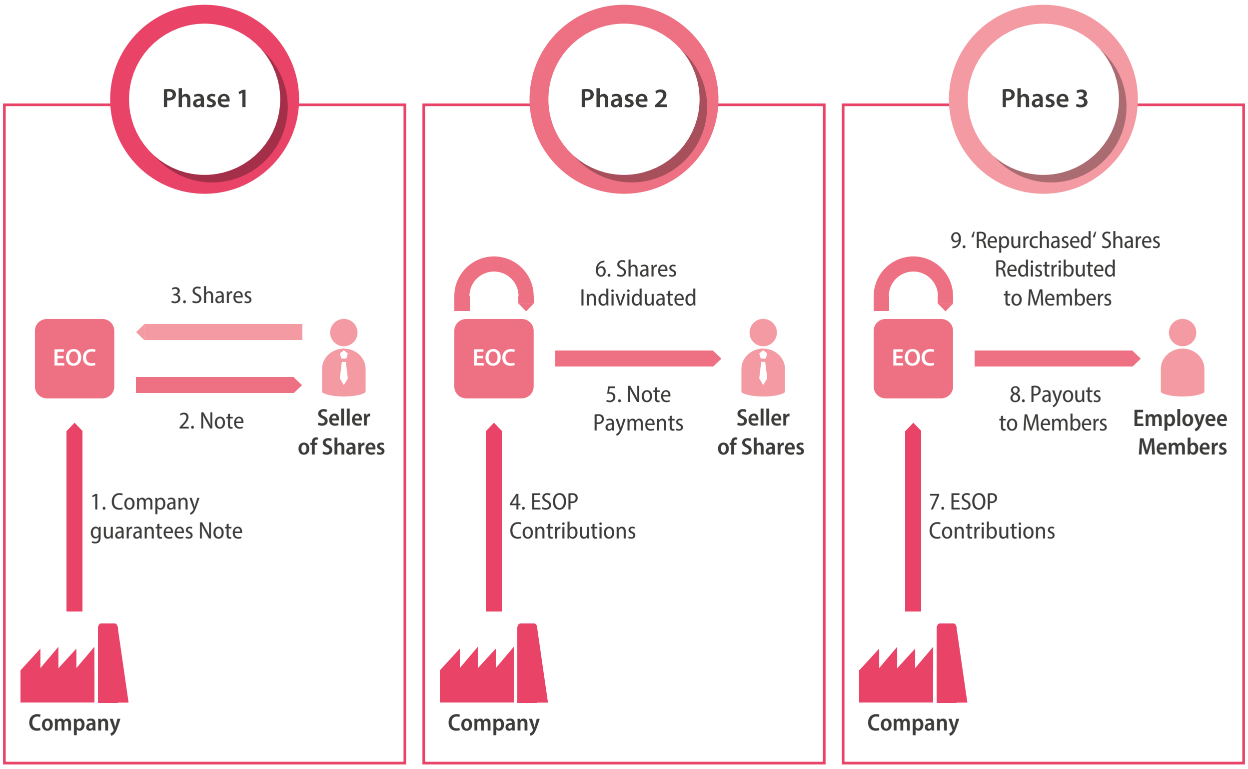
Within the Slovenian ESOP model, a WBO is facilitated through an employee ownership cooperative (EOC) vehicle that purchases shares from the shareholders (buy-out) or newly issued shares or treasury shares from the operating business itself (buy-in). This WBO model is fully leveraged, meaning that financing is structured so that the operating company transfers a share of profits (usually called an ESOP contribution) to the EOC, which is used to pay off the creditor of the sale. The creditor can be the seller (seller's credit), illustrated in Figure 1, or an external financier (alternative funds, commercial banks, national banks, private lenders, etc.), illustrated in Figure 2. In practice, it is usually a combination of both. When the acquisition debt is being paid off, the shares (a special class of internal shares, not actual shares of the underlying company) are vested among the employees in the EOC, so that financial rights (profit and capital rights) are individuated. The model creates an innovative capital structure that allows new generations of employees to be gradually included in ownership and creates an automatic system of gradually paying out the departing workers, keeping the ownership within the current generation of employees.

Figure 3 below explains the process of WBO through the European ESOP that is being piloted in Slovenia and may soon be subject to legislation. Phase 1 describes the initial transfer of shares. In Phase 1, step 1 indicates the agreement between the EOC and the underlying company that the company will pay a share of the added value to finance the acquisition of the shares. Based on that agreement, the seller of the shares sells shares to the EOC and receives a note that defines the conditions of the payment for the shares in steps 2 and 3. This is called a seller's credit option; in practice, an external creditor often contributes a major share of the purchase value to the EOC paid to the seller directly, decreasing the need for the seller to wait to be repaid.

Phase 2 describes the repayment of the acquisition debt and individuation of shares among the members of the EOC (workers of the company). Before the debt is repaid to the seller (or external creditor), shares are put on the suspense account. In Step 4, the company is making annual contributions to the EOC that are used to cover the note payments to the seller in step 5. With the annual payments, the proportional number of paid-off shares are vested to the individual accounts of EOC members (based on pre-determined allocation criterion, usually within-firm pay ratios) as indicated by step 6.

Phase 3 describes the roll-over process, where the shares are continuously repurchased and re-allocated among the active accounts of EOC members. After the acquisition debt is fully repaid, the company continues to transfer an ESOP contribution annually to the EOC (based on the liquidity possibilities of the company) as shown by step 7. Steps 8 and 9 designate the purchase of the oldest shares on the individual accounts of members (FIFO method) and the re-allocation of these shares back among the active workers. This can be interpreted as the "new" members buying off the "older" members. New workers are gradually included in ownership and departing workers gradually bought-off. The main function of the roll-over is to (i) ensure that the ongoing generation of workers remains the owners of the shares of the underlying company and to (ii) help with managing the repurchase obligation based on the current financial condition of the operating company.

Figure 3: Illustrated step-by-step explanation of European ESOP transaction.



Source: Ellerman, D.et al. (2022), 'European ESOP: The main structural features and pilot implementation in Slovenia', available at: https://mfgren.org/wp-content/uploads/2022/07/ellerman-piece-on-esops-060722.pdf.

The Law on EOC proposal defines special conditions for a cooperative to become an EOC, under which the cooperative receives special tax treatment for buying stock in the name of employees, who become members and indirect owners through the EOC. The contribution by the company to the EOC, which is used to purchase and consolidate shares among the employees, is a tax-deductible contribution for the underlying company both in Phase 2 and Phase 3 as described above. The function of that tax incentive is to establish (Phase 2) and maintain (Phase 3) broad-based employee ownership. The proposed law introduces into the EU legal framework a legal innovation – creating a structure that perpetuates shares among the current generation of employees (addressing the succession problem). In its current form, the law proposal defines a tax clawback if the cooperative sells the shares outside its structure – if the EOC sells its stock or part of its stock, the tax incentives received in acquiring that stock must be returned from the proceedings from the sale before the owners (EOC members) are paid for the sale of the stock. Likewise, the proposed law creates a tax incentive for selling owners by decreasing the capital income tax rate by five percentage points relative to the baseline, incentivising owners of businesses to sell to the workers rather than private equity buyers or large competitors interested in acquisition. The Employee Ownership Participation Act was expected to complete legislative procedures in Slovenia by the end of 2024[15].

15 It should be noted that the first legal initiative that anticipates a standard ESPP, where workers individually hold and trade shares, creates a short-term equity reward scheme that does not regulate the exit of employee ownership, and should not provide the same tax incentives as the second legislative proposal, which would promote employee ownership as a long-term policy for the ownership of Slovenian businesses. The IED, which collaborates closely with the ministries on both proposals, suggests that the exit is disincentivised in both laws equally – tax incentives are legitimate and justified only in the case that they support sustainable employee ownership structures that can ensure positive social and economic influences over the longer term. Both laws should anticipate a tax clawback if the WBO is transitory in nature, and if employee owners sell their shares freely outside a regulated employee ownership structure as conventional shareholders.

03 Demand-side analysis

The demand-side analysis is conducted using an overview of the existing WBO situation in Slovenia. This analysis relies on inputs from the IED and on the interviews conducted with business stakeholders. A preliminary observation is that WBOs in Slovenia are increasingly popular among businesses and institutional stakeholders as a tool for addressing the succession challenge and motivating workers. In this section, we look at the main reasons for WBOs and discuss the opportunities to create more demand for them.

While WBOs are increasingly being discussed among the business community in Slovenia, only a few have been successfully implemented in recent decades. The 2021 update to the governmental registry of businesses that have created employee share plans or employee profit sharing plans using the Employee Participation Act shows that since 2019, only eight Slovenian businesses have used the law to share profits with employees, and only one company has used the law to create a share purchase plan[16]. Most businesses that undergo a WBO do not use the Employee Participation Act and are not listed in the registry. Since there is no organised registry of WBOs, it is impossible to determine the volume of WBOs precisely. Rather, we can evaluate the number of WBOs based on interviews and the knowledge of local stakeholders included in this study.

Based on the experience shared by Slovenian stakeholders in interviews, the ideal target companies for WBOs are SMEs with higher added value. However, both international and domestic experience shows that in terms of company typology there are no real limitations for a WBO, since employee ownership is adopted by companies of different sizes (including very large companies such as Publix Supermarkets in the USA with almost 200 000 employee-owners) and in different industries (e.g. service, manufacturing and engineering). The legal form of the operating company is not considered relevant. In the case of reviewed Slovenian WBOs, there are no specific characteristics of companies that have conducted WBOs. In terms of size and industry, no particular company type seems more appropriate for WBOs than any other. WBOs have been conducted by both small and large companies - from eight workers in the case of Hudlajf d.o.o., to 1 400 workers of Domel d.d. There have been WBOs labour-intensive (e.g. Datalab d.d.) and capital-intensive industrial companies (e.g. M-Tom, Kovintrade d.d., and Domel d.d.), as well as companies in between (e.g. Inea d.o.o. and Dewesoft d.o.o.). WBOs have been carried out by both d.o.o and d.d. companies.

A recent research project commissioned by the Ministry for a Solidary Future, Republic of Slovenia, and conducted by the University of Ljubljana explores the market potential for WBOs in Slovenia.[17] Preliminary results, based on a survey of 365 closely-held businesses, indicate promising opportunities. The study, coordinated by the Faculty of Economics and the Faculty of Social Sciences at the University of Ljubljana (in which the author of this chapter participated, though results are not yet published), reveals that 34% of business owners plan to retire within the next 10 years, while 37% are uncertain or did not respond. Among those retiring, only 31.5% have an ownership succession plan. Notably, a significant share of owners expressed interest in WBOs as a succession strategy, ranking it as the third most popular exit option in the survey. When asked to assess the suitability of WBOs for ownership succession, respondents rated it an average of 3.7 out of 5 and additionally indicated a strong desire for legislative and financial support.

16 The Republic of Slovenia, *Employee participation in profits*. [Online]. Accessed on 16 May 2023, available at: https://www.gov.si/teme/udelezba-delavcev-pri-dobicku/.

17 Accessed on 28th of February 2025 at the following web address: https://www.fdv.uni-lj.si/raziskovanje/institut-za-druzbene-vede/raziskovalni-projekti/P7666.

3.1 Reasons for WBOs

While WBOs remain rare in Slovenia, the most common reasons for those that have occurred are saving jobs, addressing the ownership succession challenge, protecting the company against a hostile takeover and rewarding or motivating workers. Some of these cases are described below, and four are explored in more detail in the case studies of individual companies.

3.1.1 Saving jobs

In recent decades, there have been several WBO attempts in Slovenia to save failing businesses. However, due to a lack of institutional support, there is only one successful example of a WBO that has helped save jobs – M-Tom d.o.o., a business still running today. The company encountered liquidity problems, and when the owners instigated a bankruptcy procedure, the workers organised for a WBO. Today, the company is a profitable enterprise with EUR 1.7 million total revenue in 2022, and 23 employees, of which 10 are worker-owners.

There are a few cases[18] in Slovenia of attempts to save jobs through a WBO, among which we present Safilo d.o.o., Adient SG d.o.o., and Treves d.o.o.

In March 2021, sunglasses and glasses frames manufacturer, Safilo announced that it would close its local production plant. Since the company is the largest employer in the community of Ormož, providing more than 500 jobs, the regional director of the employment office stated in a local newspaper after the news was published that the closure was a disaster for the region. The reason for the plant's closure was not a lack of profitability (the company was profitable throughout the years), but lower production costs in countries with less labour regulation and lower taxes. During the same year, the owners of car supplier Adient Slovenj Gradec d.o.o. also decided to close the doors of the company, putting more than 400 jobs at risk, while 116 workers had already lost employment in the previous wave of lay-offs in 2019. Adient was a profitable company, with its annual reports showing a profit of EUR 3.9 million in 2018, EUR 1.5 million in 2019, and EUR 440 050 in 2020. The main reason for moving its production was again optimisation of production costs. The third company entering liquidation in 2021 was another automotive sector supplier, Treves d.o.o. Following a fire at the production site, the representatives of the parent company in France decided to close the plant in Slovenia based on poor prospects of the business due to incurred costs of the accident, which would have resulted in the loss of around 100 jobs. As in the other cases, the company was not liquidated because it would incur losses (despite the fire which affected production for several months, the company had a net profit of EUR 697 761 in 2019 and EUR 117 740 in 2020), but because the owners would achieve higher profits by moving production abroad.

3.1.2 Addressing the ownership succession challenge

There are more examples of successful WBOs which addressed the ownership succession problem. This describes the situation of a founder or group of founders approaching retirement age, with no market for shares in the company they have created and often managed for decades. An example of a company that has conducted a WBO to ensure a successor is Kovintrade d.d., the leading trader in the field of semi-finished metallurgical products in the Slovenian market, with almost 200 workers. The company offers various materials and services. In 2021, Kovintrade d.d. conducted a WBO to address the succession problem and today, more than half of the workforce co-own the company. Around 100 workers have become owners through a special purpose cooperative, which holds 5% of the Kovintrade d.d. stock, while the remaining 95% is still dispersed among external shareholders.

18 Other examples are Fructal Ajdovščina d.o.o., Novoles d.o.o., Sanitec d.o.o. and Armal d.o.o.

Succession planning in SMEs has been recognised as one of the substantial opportunities for developing WBOs in Slovenia. The SME sector is the backbone of the Slovenian economy, employing over 70% of all private sector workers, and generating 65% of all the revenues in the economy[19]. Studies show that compared to other EU countries, Slovenia is inadequately prepared for ownership transfer among business owners and has under-developed legal and technical support for ownership transfers[20]. In 2018, a study based on a sample of 78 respondents of SME owners, found that in Slovenia almost 40% of entrepreneurs aged over 55 do not plan ownership transfer, while the majority of remaining entrepreneurs plan to transfer their business to their children[21]. In anticipation of the silver tsunami – a wave of the older generation retiring from their role as business owners, one of the largest wealth transfers in Slovenian history since the privatisation of state-owned enterprises in the 1990s is expected. The SME sector in Slovenia employs around 400 000 people, and a quarter of businesses are owned by partners over 55 years of age. This suggests that up to 100 000 jobs are at risk over the next 10 years, due to complications in the transfer of ownership, representing just over 10% of the working population[22].

In Slovenia, the most common form of ownership transfer is family succession[23]. However, due to a shift in generational values and aspirations, family succession is declining[24]. The Slovenian Chamber of Small Business estimates that it is relevant for less than 10% of all anticipated ownership transfers. Another option is an organised market for businesses. In Slovenia, the capital market is generally underdeveloped[25] and not necessarily the most suitable for smaller companies facing ownership succession. Abroad, private equity (PE) may provide an exit for the owners of middle and upper market companies and the SID Bank is currently developing a PE mechanism to address ownership succession[26]. In addition to these tools, the USA and UK governments have developed dedicated instruments to facilitate WBOs as a tool for addressing succession problems. These are the ESOP model in the US and the employee-ownership trust (EOT) model in the UK, which are further discussed in the ESF+ Study on Workers' Buyout – Summary report[27]. In Slovenia, WBOs have only recently started being considered as a socially responsible alternative to other ownership succession options.

19 The Government of the Republic of Slovenia, *Small and medium-sized enterprises*. [Online]. Accessed on 26 June 2023, available at: https://www.gov.si/teme/mala-in-srednje-velika-podjetja/.

20 Močnik. D,Duh, M.,Crnogaj, K., Rebernik, M. (2018), 'Slovenian Entrepreneurial Demographics and Business Transfers' (Slovenska podjetniška demografija in prenos podjetij. Slovenski podjetniški observatorij)', University of Maribor.

21 Ibid.

22 Gonza, T. (2020), 'Employee Participation Act' (Zakon o udeležbi zaposlenih v lastništvu),' Ekonomska demokracija, Volume. 24, Issue. 6, December 2020.

23 European Commission (2020), A SME Strategy for Sustainable and Digital Europe, Brussels, 2020.

24 Močnik, D., Duh, M.,Crnogaj, K., Rebernik, M. (2018), 'Slovenian Entrepreneurial Demographics and Business Transfers' (Slovenska podjetniška demografija in prenos podjetij. Slovenski podjetniški observatorij),' University of Maribor.

25 Kapitanovič, P.(2019), 'The Slovenian capital market is very poorly developed' (Slovenski trg kapitala zelo slabo razvit), Delo, Available at: https://svetkapitala.delo.si/delove-podjetniske-zvezde/slovenski-trg-kapitala-zelo-slabo-razvit/.

26 The PE Succession Fund is part of the Slovenian Growth Equity Investment Programme - SEGIP, which comprises the original SEGIP (EUR 100 million) supported by the EFSI (Juncker Plan) and its complement SEGIP Top-Up (EUR 120 million) supported by InvestEU, with a total of EUR 220 million of equity financing provided for predominantly exclusively Slovenian companies by SID Bank and the EIF. Information available here: SID Bank, *Small and medium-sized enterprises*. [Online]. Accessed on 15 June 2023, available at: https://www.sid.si/mala-srednja-podjetja/sklad-zasebnega-kapitala-za-financiranje-druzinskega-lastniskega-nasledstva.

27 fi-compass, 2025, ESF+ Study on Woker's Buyout, Summary report, available at: https://demo.fi-compass.eu/esfplus/workers-buyout.

Based on conversations with retiring owners in the SME sector, the existing research on the topic and conversations with IED experts working on the topic of WBOs and ownership succession, the SME sector presents a great opportunity for WBOs with unresolved ownership succession. Between 2022 and 2023, two companies in Slovenia conducted WBOs through pilot implementations of the sloESOP model, to address ownership succession – Inea d.o.o.[28] (in 2021: EUR 9.8 million total revenue, 85 employees) and RBT Technologies d.o.o.[29] (in 2022: EUR 3.2 million total revenue, 10 employees). Both were assisted by the IED. Both WBOs are discussed further in Chapter 6 - Case studies of WBOs.

3.1.3 Protection against a hostile takeover and concern for local communities

In Slovenia, local businesses often play a big role in maintaining the economy and social life of local communities outside urban centres. **WBOs can provide a strategy for protecting those businesses against hostile takeovers**, since worker ownership tends to ensure locally responsible ownership interest and governance. This can be illustrated by the municipality of Železniki, which was ranked first among all Slovenian municipalities with the best standard of living (state of the population, health, infrastructure, absence of crime), according to a 2017 survey by the magazine Moje finance. This is often attributed to the fact that two of the main employers in the region are employee owned. The largest of these, Domel d.d., facilitated a WBO as a defence against a hostile takeover by a US multinational corporation. The likely outcome would have been a merger of the company's vacuum cleaner motors programme with a company in Czechia. The likely negative impact on employment in Železniki, was recognised as a great risk. A WBO would ensure a stable ownership with a strong focus on the health of the local community - in 2022, Domel employed 1 323 employees and had a turnover of EUR 202 million. The second-largest employer in the municipality is Alples d.d., which employed 137 workers in 2021 and achieved EUR 10.2 million total revenues. Both companies provide stable employment and finance social and sports programmes in the region.

Another example of employee-ownership positively affecting quality of life is the municipality of Žiri, ranked third in Slovenia in terms of living standard. A significant share of job opportunities in the municipality are provided by M-Sora d.d. (in 2021: 210 employees, EUR 38 million total revenue) and Etiketa d.d.[30] (in 2021: 211 employees, EUR 6.5 million total revenue). Etiketa d.d. is one of the company case studies discussed in Chapter 6.

28 Ever since its inception in the early 1990s, there has been an agreement among the owners of Inea d.o.o., which had 100 employees in 2023, that the company would remain internally owned. There was no automatic mechanism to transfer the ownership to the new generation of active employees. The European ESOP model was used to create a national application of the concept in Inea, called sloESOP. As part of the WBO using the sloESOP model, democratically elected worker representatives from Inea founded a cooperative as a special purpose vehicle, through which all employees will gradually become 100% owners of the company. In August 2023, the first share was transferred to the cooperative.

29 RBT Technologies faced an ownership succession challenge in the context of generational changes and the potential loss of skills and knowledge embedded in the company's operations. They also believed that broad EO could enhance commitment, motivation and loyalty among the employees. Additionally, they saw the advantage of a transition to a new ownership model which prevented external investors from acquiring the company and potentially engaging in a hostile takeover.

30 Etiketa tiskarna d.d. faced a significant threat of hostile takeover by a multinational company which showed a strong interest in its acquisition. However, the Etiketa management declined the offer, foreseeing the potential negative outcomes of the takeover, including closure of parts of the company and the loss of jobs in the local community (which later came true for a different foreign company bought by the same multinational). The commitment of the employee-owners to the company's well-being, and their belief in its value were strong drivers in their resisting the takeover. This event highlights the importance of EO in safeguarding the company's autonomy and its future and economic stability, as well as local jobs and the community.

3.1.4 Motivation and reward for workers

Research shows that **worker ownership leads to improved productivity and growth**[31]**, crisis resilience**[32]**, organisational affiliation, and well-being of the workers**[33]. One of the reasons for WBOs, especially prevalent among existing business owners, is to provide a systematic motivational structure. Dewesoft d.o.o. (in 2021: EUR 34.8 million total revenue, 114 employees, out of which 85 are worker-owners) is today one of the most famous worker-owned businesses in Slovenia. The company works with NASA, Boeing, Rimac, Harley-Davidson and other global businesses. It exercises an ESPP programme[34] and the motivation behind its WBO was establishing a locally responsible structure that would provide a motivational scheme for the workers. Dewesoft d.o.o. is an example of a business with high added-value that wants to share financial success with its workers, but also to anchor ownership to the company. The firm is determined to keep its ownership internal. There are other businesses in Slovenia following the lead of Dewesoft, ranging from start-ups to established firms, for example Datalab d.d., Cosylab d.d., Better d.o.o., Hudlajf d.o.o. All these companies have conducted or are considering a partial WBO to establish a motivational structure for their employees.

In the interview for this report, Domel's representatives said that employee-owners are more engaged and ambitious, make better financial decisions and understand why a long-term perspective is important. They often discuss values, including the idea of employee-ownership, and care for the firm's employees and customers.

According to Inea, since its WBO via sloESOP, the employees who make up the board of directors and the supervisory board have become noticeably more engaged, showing increased interest in company-related matters than before. They are contacted by numerous employees regarding their problems, comments, or concerns. Overall, Inea employees have also shown greater engagement in terms of making suggestions than before the WBO.

31 Joseph, B., Kruse, D., & Freeman, R.B. (2018), 'Broad-based employee stock ownership and profit sharing: History, evidence, and policy implications,' Journal of Participation and Employee Ownership 1 (1),, pp. 38–60. Available at: https://doi.org/10.1108/JPEO-02-2018-0001.
Niels, M., &Poulsen, T. (2021), 'Employee ownership – pros and cons – a review,' Journal of Participation and Employee Ownership, 4 (2), pp. 136–73. Available at: https://doi.org/10.1108/JPEO-08-2021-0003.
O'Boyle, E. H., Patel, P.C., & Gonzalez-Mulé, E. (2016), 'Employee ownership and firm performance: A meta-analysis', Human Resource Management Journal 26 (4), pp. 425–48. Available at: https://doi.org/10.1111/1748-8583.12115.
Douglas, K. (2022), 'Does employee ownership improve performance?,' IZA World of Labor, Available at: https://doi.org/10.15185/izawol.311.

32 Adrien, B., Dufays, F., Friedel, S., & Staessens, M. (2021), 'The resilience of the cooperative model: How do cooperatives deal with the COVID-19 crisis?', Strategic Change 30 (2), pp. 99–108. Available at: https://doi.org/10.1002/jsc.2393.
Joseph, B., Kruse, D., &Weltmann, D. (2021), 'The response of majority employee-owned firms during the pandemic compared to other firms', Journal of Participation and Employee Ownership 4 (2), pp. 92–101. Available at: https://doi.org/10.1108/JPEO-09-2021-0014.
Employee Ownership Foundation, *Employee-owned Firms More Likely to Retain Employees during Pandemic*. [Online]. Accessed on 20 June 2023, available at: https://www.fiftybyfifty.org/2020/10/employee-owned-firms-more-likely-to-retain-employees-during-pandemic/.
Kyoung Yong, K. & Patel, P.C. (2020), 'Broad-based employee ownership and labour productivity during the 2008 recession: Evidence from public firms in Europe', British Journal of Industrial Relations 58 (2), pp. 396–423. Available at: https://doi.org/10.1111/bjir.12508.

33 Alex, B., Clark, A.E., Freeman, R.B, &Green, C.P. (2016), 'Share capitalism and worker wellbeing.' Labour Economics 42, pp. 151–58. Available at: https://doi.org/10.1016/j.labeco.2016.09.002.
Thibault, M. (2021), 'Past, present and future of empirical research on employee-owned firms: A structured literature review over 1970–2019,' Journal of Participation and Employee Ownership 4 (1), pp. 1–25. Available here: https://doi.org/10.1108/JPEO-07-2020-0018.
Daniel, S. (2020), 'Another workplace is possible: Learning to own and changing subjectivities in American employee owned companies,' Critique of Anthropology 40 (1), p. 28–48. Available at: https://doi.org/10.1177/0308275X19840416.
Juliette, S. & Chillas, S. (2021), 'Working in employee-owned companies: The role of economic democracy skills,' Economic and Industrial Democracy 42 (4), pp. 1029–51. Available at: https://doi.org/10.1177/0143831X19835319.
Stephen, W. & De Menezes, L.M. (2011), 'High Involvement Management, High-Performance Work Systems and Well-Being,' The International Journal of Human Resource Management 22 (07), pp. 1586–1610.

34 ESPP is an employee ownership model where workers can take a part of their monthly income or annual bonus to purchase shares from the company, which issues new shares.

When it comes to motivation, broad-based inclusion of workers in EO has the advantage of positively contributing to businesses' long-term stability, predictability and competitive advantage, through the benefits of ownership culture. Broad involvement of the company's employees in ownership is crucial for building a company culture that increases employees' engagement throughout the company, thus making the business more successful. It is reflected in the way that everyone in the company is focused on the same big picture and the firm's main business goals, perceiving the company as their own product. In a company with a developed culture of ownership, the firm's interest is aligned with the worker-owners' personal interests since they all have a stake in the company's ownership.

We have identified an opportunity in WBOs to provide a motivation for workers and a reward for their collective and individual efforts in the success of the company where they work, especially through models leading to sustainable EO in businesses.

3.2 Constraints for WBOs

3.2.1 Access to finance

WBOs in Slovenia have not benefited from any financial instruments that would aid workers who engage in a WBO. This was the case for all WBOs reviewed through desk research and stakeholder interviews.

Table 1 below provides an overview of some of the individual cases, while others are analysed in more detail in Chapter 6. We have found that except for the pilot implementations of the sloESOP model, all other WBO examples in Slovenia have relied in one way or another on the investment of wages, bonuses, or using personal assets to finance the buyout.

Table 1: Constraints for WBO in access to finance.

M-Tom d.o.o.	Workers have provided personal guarantees for the buyout loan. The workers and the management organised and secured a loan using their own assets (mortgages on homes etc.). Because the state does not offer any support in such cases, the workers were forced into a high-risk situation trying to defend their jobs. Many of the low-paid workers in M-Tom d.o.o. were not included in the WBO, since they could not afford to risk their personal assets and the material and existential security those assets give them. M-Tom's management said that the WBO was a very stressful endeavour for all the workers involved.
New Fructal	Workers had to pledge shares as a guarantee and obtain approximately EUR 20 million in additional guarantees, which the newly created company was unable to obtain. Ultimately, the deadlines for the submission of bids proved too short for the workers to raise guarantees, or to issue bonds or other forms of debt securities. The initiative raised EUR 8 million in guarantees, which was only enough for 25% + 1 share. Instead, a foreign investor (Nectar) purchased 100% of the shares, and eventually began laying off workers. Similarly, the Novi Novoles cooperative failed to ensure sufficient resources for a WBO, despite the political will at the time. The cooperative offered the option of leasing business assets, but the insolvency administrator rejected the cooperative's non-binding offer at the time, as it did not comply with the tender conditions. These required a one-off repayment of the bankruptcy estate. The consortium was unable to secure sufficient funds and the assets were bought by the larger competitor, Metalka Commerce.

Novi Armal	In the case of the Novi Armal WBO attempt, the problem was obtaining collateral for a loan that would allow the workers to finance the buyout. Most of the workers, especially those on low incomes, could not afford to risk their own personal assets as collateral. Over a relatively long period of planning and organising the WBO, some of the workers found new jobs or exited the initiative, leaving only eight workers in the cooperative by the end of the process. The problem of raising buyout capital also prevented a WBO of the company AAT, for which workers raised around EUR 500 000 through remittances. However, the banks did not provide additional debt instruments, because the legal entity was newly founded and had not previously generated any cash flow to prove it could pay off the acquisition debt. During this process, the workers covered more than EUR 19 000 of costs of the legal proceedings out of their own pockets.
Kovintrade d.d	The company established an ESPP WBO model with a cooperative as an SPV to facilitate the WBO (rather than the Slovenian ESOP model that was recommended by the IED). The workers needed to individually invest their personal assets (bonuses, wages etc.) to purchase voluntary shares in the cooperative, where the cash was used by the cooperative to purchase Kovinatrade d.d. shares. These were then assigned to individual employee-members in the cooperative. However, due to the workers' limited purchasing power, the WBO has not been the most successful in terms of the size of the stock bought by employees – currently, slightly more than half of the workers (roughly 100) jointly own only around 5% of the total shares.
Domel Holding d.d.	In the case of the largest worker-owned firm in Slovenia, Domel Holding d.d., every employee that has been with Domel for more than two years can become a shareholder of Domel Holding but must invest their own assets to do so. Domel's experience has shown that employees that decide on share purchase are typically highly paid professionals and those who have already solved their housing problem, not the manual workers in manufacturing jobs. Although Domel Holding's internal articles state the company is employee-owned, currently only 25% of all employees are part owners, while former workers hold a 53% stake.
Inea d.o.o.	The problem of access to financing has been identified in the study of the Inea d.o.o. WBO, which is one of the pilot projects that employed the sloESOP as a WBO model. The company founded a cooperative, serving as an SPV for the buyout. However, about half of Inea's major exiting owners insisted on being paid out in two instalments over the next two years. The first instalment was financed by cash reserves, and the second partly by cash reserves and partly by a loan (the loan was provided by a commercial bank, for the financing of operating capital)[35]. It covered less than a quarter of the company's value paid out to the major shareholders. The other departing owners agreed to seller's credit, where their shares would be paid out gradually through anticipated profits. The new cooperative would have to buy back all the shares of the exiting owners but was not in a position to take an 85% stake in the company at the moment the former owners were exiting. As the company spent a large chunk of the operating capital to pay off the departing shareholders, the banks increased the price of debt (which has reached unsustainable levels for Inea), due to perceived higher risks associated with the business. This despite that fact that Inea had confirmed projects for several years ahead and, prior to the WBO, had an excellent credit rating.

35 Had that not been the case, the company would not have been able to raise debt capital, since commercial banks are very careful with financing LBOs, especially after the recent experience with leveraged MBOs in Slovenia.

RBT Technologies d.o.o.	A similar situation occurred in the case of RBT Technologies d.o.o., another company transitioning into EO via the sloESOP model. The company says the WBO has negatively affected relationships with its banks in terms of credit terms and collateral requirements. The respondents in the interview expressed a clear need for additional funding to ease the WBO process – potentially through co-financing arrangements that offer extended loan repayment periods of between 10 and 20 years. Such arrangements would facilitate a smoother and faster buyout, allowing the company to plan for future growth initiatives. RBT Technologies' ambitions, including purchasing property and investing in long-term success, underline its dependence on securing additional financing. According to the company, adequate financial support is essential to facilitate a smooth and successful WBO, while maintaining the firm's ongoing operations and growth trajectory. Based on the interviews, if a company's aim is to realise a broad-based WBO, e.g., via the ESOP model, in a reasonable time frame, i.e. within 20 years, there is a clear need for financial support and for a mechanism to support the WBO, including a state guarantee for WBO loans. Among younger workers in particular, a timeframe of several decades is not a tangible enough option to motivate them to take part in a broad-based WBO such as the ESOP. The current institutional arrangement in Slovenia thus indirectly forces companies potentially interested in broad-based EO, to engage in conventional sell-outs to external investors rather than an internal, local and socially responsible WBO.

Source: Author.

The problem for the WBO is access to capital – since the workers do not have significant personal assets to invest, it was not possible to gain a significant share through a WBO financed by their savings (or wage decrease). A better source of capital is future profitability of the operating company, which can be capitalised through a leverage mechanism to finance the WBO. In all the cases above (and other examples), the absence of state financing mechanisms and the unwillingness of banks to provide debt capital reveal a market gap in the financing of WBOs in Slovenia. The lack of appropriate financial instruments provided by state institutions, underdeveloped capital markets and the lack of interest by commercial banks to provide debt capital has limited WBOs as a tool for savings jobs in Slovenia.

3.2.2 Legislative support to sustainable WBO models

The challenge for most WBO models currently in use in Slovenia (i.e. direct individual worker ownership) is that there is no systematic mechanism in place to consolidate departing shares and distribute them to the company's active employees. For this reason, many of the worker-owned businesses in Slovenia today (Domel d.d., Etiketa d.d., M-Sora d.d., Alples d.d., and others) face a succession problem since the existing employee-owners are slowly retiring. A solution is required in the form of an instrument which would define that every owner is obliged to sell their shares within a certain time after leaving the company. This would guarantee a turnover of shares and ensure the possibility of including active employees in the ownership structure.

Table 2: Constraints for WBO in legislative support.

Domel Holding d.d.	In Domel Holding, there are 620 owners, of which 300 are active employees (holding 47% of the capital), and 320 former employees, whereby the proportion of the retired shareholders has been increasing. This has become a major challenge for the company whose articles of association indicate the commitment of involving employees in the company's ownership structure. The retired and departing owners tend to lack the motivation to sell their shares, as they are increasingly understood by the owners as savings, or capital for their retirement. Recently, the Slovenian government increased the tax rate on stock buybacks – from 1 January 2023, the respective rule came into force that interprets stock buybacks as a disposal/divestment of capital, which is taxed as capital income. This has also affected the worker-owners in Domel Holding d.d. Those who have held their shares in the company since the issuance of ownership certificates during Slovenia's privatisation, or for more than 15 years, are particularly impacted. For these individuals, the capital gains tax that would be realised through the sale to an external buyer is lower than the capital income tax. This is due to a policy in Slovenia where the capital gains tax rate is 0% after 15 years. Because of this change, owners of shares in closed joint-stock companies are in an unequal position compared to those owning shares in open joint-stock companies, as the article does not apply to the latter.
Etiketa Tiskarna d.d.	The importance of sustainable WBO models can also be seen in Etiketa Tiskarna d.d., which initially implemented its own model of internal ownership through stock-buybacks, bringing its internal ownership to over 90%. However, as employees with the shares obtained via ownership certificates in the privatisation era began retiring, the percentage of external shareholders began increasing, reaching more than 50% in 2018/2019. Etiketa's internal ownership model relies on a moral commitment among its former employees to first offer their shares to the internal fund before selling externally. While many of the former employees still respect this agreement, it lacks legal or statutory protection. This can lead to situations where individuals choose to sell externally for various reasons.
Dewesoft d.o.o.	The sustainability challenge of direct shareholding in worker ownership can also be observed in Dewesoft d.o.o., where worker-owners are in a position akin to that of conventional shareholders, trading shares in anticipation of future price movements, tax changes, or economic downturns, to maximise the short-term return on the shares. In anticipation of a crisis, they may want to sell more shares than the business is capable of re-purchasing. As mentioned above, in 2023 the Slovenian government increased the tax rate on stock buybacks. Since Dewesoft is consolidating shares internally through a stock-buyback mechanism, this has led to increased taxes on transactions, and to the widespread sale of Dewesoft shares by worker-owners before the new tax rate was applied. The tax change on stock-buybacks has also affected the worker-owners in Domel Holding d.d. Those who have held their shares in the company since the issuance of ownership certificates during Slovenia's privatisation, or for more than 15 years, are particularly impacted. For these individuals, the capital gains tax that would be realised through the sale to an external buyer is lower than the capital income tax. This is due to a policy in Slovenia where the capital gains tax rate is 0% after 15 years. Because of this change, owners of shares in closed joint-stock companies are in an unequal position compared to those owning shares in open joint-stock companies, as the article does not apply to the latter.

Source: Author.

European ESOP

The European ESOP model ensures broad employee participation in the ownership of the company where they work, and successfully addresses the sustainability problem of employee ownership. In Slovenia, the European ESOP concept has been adapted into the Slovenian ESOP.

This provides a mechanism for systematically dealing with employee fluctuation by automatically and gradually vesting ESOP shares to new employees, while simultaneously buying ESOP shares from departing employees. It clearly defines the conditions of entry, ownership rights, governance rights, and exit. This has been recognised as an advantage by all those interviewed for our company case studies. No employee owner can individually transfer, trade, or sell their ESOP shares, and possibility of exiting can only be a collective choice achieved through a majority decision. Moreover, the model's important trait is its democratic nature, in line with which each employee-owner, regardless of the value accumulated on their individual capital accounts (ICAs), has one vote in the general assembly of the ESOP cooperative. The cooperative board delegates the mandates of the board of directors, which, in turn, delegates the positions on the management board. Furthermore, in the ESOP model, employee-owners can choose among different exit strategies – in the USA, one of the most popular is a gradual pay-out over a period, e.g. 10 years. This means the pay-out becomes an annuity providing additional security during retirement. This is another advantage highlighted by respondents in the case studies. In their view, an appropriate tax incentive could enable the sloESOP to become a pillar that ensures, on a large scale, both a broad decentralisation of capital ownership in the SME sector and an additional source of income for retired workers who are being paid out gradually after departing from the sloESOP business (a kind of social instrument providing secure retirement through ownership, in addition to a regular pension). An unfavourable approach, as stressed by some respondents, would be if the legislation related to the model encouraged strict transitions, i.e. one-time payments to departing workers, which could bring heavy liquidity constraints on the operating company.

The anticipated tax incentives

The anticipated tax incentives can play a significant role in encouraging companies to conduct a WBO through the sloESOP model. This is an important subject in Slovenia right now and discussions on regulation changes are being conducted between different stakeholders. Experience from other countries indicates that state laws can provide financial benefits and reduce the cost of establishing and maintaining an ESOP. This is especially the case if the ESOP contributions from the company that finance the payment of acquisition debt are tax deductible for the operating company. This significantly lowers the price of capital required to establish and maintain worker ownership. The state can, for example, offer favourable tax treatment on capital gains realised from the sale of shares held within an ESOP, or allow companies to deduct the cost of contributions made to the ESOP from their taxable income. The tax break may, however, fall under the state aid rules, meaning that clearer guidelines by the EU would be welcome on the use of profits to finance a leveraged WBO.

3.2.3 Technical services

There is a marked need for specialised technical services dedicated to WBOs in Slovenia, including legal, financial, and organisational expertise. Currently, there are very few experts in the field. This can be illustrated by the WBO experiences of Inea and RBT Technologies. Neither of the two companies received any technical assistance from the state. By chance, in 2019, the Inea owners connected with the IED, where they received structured information and practically all their current knowledge about the sloESOP WBO model, as a possible solution to the ownership succession challenge. The respondents from Inea believe that without the IED they would have probably turned to their financial advisors in search of a solution. However, since they are primarily focused on sales or on carrying out the process in an economically optimised way, they would have been unlikely to suggest a WBO.

In the case of Etiketa too, it was the IED that gave the company a potential comprehensive solution to the challenges it was facing with its existing internal ownership structure. Although initially reserved, over the course of numerous sessions that addressed the company's different questions and concerns, Etiketa came to recognise the benefits offered by the European ESOP model[36]. Both Inea and RBT Technologies noted that IED technical expertise was crucial in their WBO transition processes, since there are currently no other institutions in Slovenia assisting companies in this situation.

Technical assistance provided by the IED

Services that support WBOs through relevant legal, financial, and organisational expertise play an important role in empowering companies and other related stakeholders with knowledge, skills, and confidence that help them decide for and successfully navigate a WBO. These services can take the form of specialised organisations, training and educational programmes, workshops, consultancy, and more.

The IED played a crucial role in assisting both Inea and RBT Technologies during their WBOs via sloESOP, providing guidance and support in several key areas, thus contributing to the successful implementation of the model. It organised and conducted training sessions, seminars and workshops for management and employees, providing structured and comprehensive information about the WBO and the model, EO specifics and benefits, legal requirements, and ownership culture development. The IED further provided expert advice and consultation on various aspects of the WBO, addressing questions, concerns and challenges that arose during the process. Moreover, the institute facilitated communication between RBT Technologies and the banks, working to alleviate their scepticism and raise their awareness of EO, the ESOP model and the legitimacy of these pursuits.

Ownership culture development

Ownership culture development is another area where such support has proved to be highly necessary. It is a key prerequisite in ensuring the WBO achieves its real potential. This is reflected in a high-trust, high-engagement and high-participation company culture that fosters a positive environment with versatile, committed and entrepreneurially minded employees, passionate about their company's success. Notably, employee-owners need to be taught how to be owners. They need to develop relevant skills:

- To become financially literate, build an entrepreneurial attitude, ownership values, understand the company's business strategy, its needs and priorities, position on the market, customers and competition.
- To develop autonomy and take the initiative in suggesting improvements, cost-reduction ideas and innovation in the company.
- Additionally, for their active involvement, structures and processes for participatory management need to be established.

36 In relation to the sloESOP model, there is currently a dearth of legal experts in Slovenia on the topic of WBOs and cooperative law. Inea has overcome the legal obstacles in its WBO with the help of retired legal experts/consultants belonging to the generation that grew up in the former Yugoslavia, who still studied the principles of socialist self-management. All other institutional stakeholders that Inea encountered during the WBO, indicated distrust and opposition to the WBO, often on ideological grounds. These included agencies, legal advisors, tax advisors, financial advisors, auditors, the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES) and SID Bank.

The respondents in the interviews also recognised the importance of an ongoing effort in building a culture of ownership to address generational changes within the workforce and ensure the company's sustainability over multiple generations. Expert-led educational programmes and training focused on ownership culture development can play a key role in helping employees at all levels recognise and understand the value and reward of internal ownership, develop and embrace the ownership mindset, participatory leadership and recognise their active role in the company's success. The importance and value of advisory services and expertise development in employee ownership is clear both in research and international best practice in the field of EO, as well as in the practical examples of WBOs in Slovenia presented in this study.

3.2.4 Advocacy

The challenges contributing to underuse of WBOs in Slovenia and impeding their development in terms of demand potential, include markedly low awareness among relevant stakeholders of WBO possibilities. The cases of Inea, RBT Technologies, Domel, and Etiketa show the importance of establishing organisations and channels for knowledge sharing, e.g. informing and raising awareness among stakeholders, such as the business community, banks, government agencies and consultants of the advantages, requirements and potential of WBOs. Currently, there are no organisations other than the IED, specialising or actively engaged in such efforts. An example of the institute's endeavours is the First Slovenian Congress on Economic Democracy, an international, live-streamed event in 2022, bringing together over 100 participants. These included renowned Slovenian and international keynote speakers from the business community, relevant political and banking stakeholders, international experts on EO and representatives of successful employee-owned companies at home and abroad[37].

Arguably, a systematic advocacy strategy could positively contribute to changing key stakeholders' attitudes towards and perceptions of WBOs, so that they can be seen as useful tools for addressing ownership succession, rewarding and motivating employees and ensuring that local businesses remain socially and environmentally responsible and locally owned.

In the case of banks, awareness raising and knowledge sharing, including on the topics of legal support and regulatory frameworks surrounding WBO models, is vital in helping alleviate concerns and minimise the sector's conservatism driven by lack of information. Indeed, effective communication with the banking sector can be seen as essential to the success of the WBO process. The engagement of RBT Technologies with Deželna banka Slovenije (DBS) is a positive example, indicating that there is untapped potential in Slovenia for a collaboration between the banks, who often lack clarity about WBOs, EO models and employee-owned enterprises. Notably, organised and systematic advocacy, including in the form of dedicated organisations and specialised services, can have a positive impact on both the demand for WBOs in the business community and the supply of financial instruments among relevant financial institutions.

37 The report on the event and the video are accessible on the IED website at: Institute of Economic Democracy, *1st Congress of Economic Democracy: For a Share in the Future*. [Online]. Accessed at 2 July 2023, available at: https://ekonomska-demokracija.si/eng/blog/etn/1st-congress-of-economic-democracy-for-a-share-in-the-future/.

04 Supply-side analysis

4.1 Brief overview of the financial sector in Slovenia

The Slovenian banking sector comprises 11 banks and three savings banks, including the 100% state-owned SID Bank.

The sector is undergoing consolidation and is relatively small. The largest bank, Nova Ljubljanska Banka (NLB), accounts for a quarter of the total balance sheet but is still small by European standards. The number of credit institutions remains at 16, with banks dominating the market. The banking system has a significant share of Slovenia's financial assets. While loans to households now exceed loans to enterprises, banks maintain substantial liquidity buffers. However, questions remain about the effectiveness of financial intermediation, the support to economic development and the sustainability of banks' business models. Capital adequacy varies across banks but is on average comparable to the euro area. Credit assessment is based on creditworthiness criteria, which assess the debtor's ability to meet their obligations, supported by quantitative and qualitative analysis. Banks generally finance purposes linked to the core business of the company and sustainable economic activities that contribute to the achievement of the company's business objectives and the creation of added value, which is not in line with financing leveraged WBOs or other types of ownership conversions. More relevant financing options in this area include SID Bank and the Slovenian Entrepreneurship Fund (SPS), which supports SMEs and sustainable projects, including projects related to ownership sustainability. However, financing share buybacks is not their focus. There are only a handful of institutions regulated by the Securities Market Agency. The registry shows there are five managers, with only a handful of funds, whose investment policy could be suitable for financing share buybacks, as they are mostly real estate and bad loan funds.

4.2 Analysis of the supply of finance for WBO through financial instruments

On the supply side, there is currently no instrument available among public institutions to support WBOs in Slovenia. Slovenia also has no specific regulatory or legal framework for WBOs (other than the law for 'profit sharing', which, in specific cases, allows the use of profits to allocate shares to workers). This limits the demand for WBOs in healthy businesses.

According to our interviews[38], there has been no established model of WBO in Slovenia since independence. However, there have been individual cases of WBOs, and expertise in the field is gradually being created. The interviewees expressed their belief that the need for the financing of employees in the event of company bankruptcy is an interesting aspect, although there have been few bankruptcy cases in recent times. The lack of awareness and understanding of WBOs among capital market actors is identified as a significant challenge. It is expected that increased awareness and support for WBOs would result in better alignment between employee demand and the capital market.

38 The interviews were conducted in 2023 with SID Bank, two Slovenian commercial banks, and two capital market institutions. We summarise the insights from the interviews, which generally point to the same challenges with WBOs in Slovenia.

4.3 Slovenian Developmental Bank

In one interaction with Inea d.o.o. (a WBO company analysed in more detail in Chapter 6), SID Bank refused to finance operating capital (not of the leveraged employee buyout, which was financed through the company's liquidity), based on the claim that the loan would indirectly finance a WBO, even though the WBO occurred more than a year before the loan request and would finance the operating capital. In its official response to Inea's application, SID Bank stated that since liquidity reserves were used to finance the employee buyout, "SID Bank cannot risk participating in financing or re-financing the [employee buyout] transaction," because "SID Bank is strictly forbidden to finance leveraged buyouts". The interviews with the bank personnel confirmed that its internal guidelines strictly prohibit financing leveraged buyouts, including WBOs. However, stakeholders from SID Bank indicated their interest in establishing dedicated financial instruments for WBOs (e.g. guarantees, state-aid exemptions, direct loans). Another option is the Slovene Equity Growth Investment Programme (SEGIP), which is a EUR 100 million equity investment programme launched in November 2017. SEGIP has been topped up with an additional EUR 100 million to support early-stage start-ups, scale-ups and family businesses seeking a change of ownership ("Succession Business(es)[39]"). EIF and SID Bank contribute EUR 50 million each to this jointly developed programme, which is expected to catalyse additional private-sector investments into funds and companies.

Additionally, SID Bank stated that it would be helpful to receive advisory service support from the EIB and national financial regulators.

4.4 Commercial banks

Slovenia experienced several unsuccessful managerial takeovers during the 2008 financial crisis, which garnered significant media attention. Due to tax banking regulations, commercial banks extensively financed management buyouts, resulting in taxpayers having to recapitalise the banks when these loans proved poorly secured and ill-considered. Since then, internal buyouts or management buyouts have become highly undesirable in Slovenia, despite good practice from abroad in terms of leveraged WBOs. The biggest opportunity for WBOs lies in leveraged transactions. Based on international good practice and the insights from the interviews, commercial banks in Slovenia may want to define and establish leverage buyback transactions in their internal documents and policies. It is important that these guidelines discuss the level of leverage and the purpose of the transaction. In the case of WBOs, over-leveraged transactions could be added as an exception, and be treated in line with the credit risk underwriting and management strategy. It is important that banks put in place an appropriate structure for managing and monitoring leveraged transactions.

There is little demand for this type of financing through commercial banks and, as a result, banks do not have standardised policies for taking on this type of risk and specialised teams of experts. Moreover, very strict guidelines make it very difficult to obtain WBO financing from commercial banks, as the borrower is a natural person related to the company being acquired and, in many cases, several natural persons, which adds complexity to the banks' monitoring of borrowers. The borrowers also lack adequate collateral. In the case of WBOs, the banks' ability to obtain collateral is significantly reduced and the purchase of the business itself does not satisfy the banking rules.

39 For SEGIP, a company meets the definition of a "Succession Business" if: (i) the majority of decision-making rights is, directly or indirectly in the possession of a natural person(s) , or their spouses, parents, child or children's direct heirs; and (ii) at least one representative of the family or kin is formally involved in the governance of the company. Accessed at 23 September 2024, available at: https://www.eif.org/what_we_do/resources/slovene-equity-growth-investment-programme/open-call-for-eol-segip-succession.pdf

There are some cases of leveraged buyout (LBO) financing through commercial banks in Slovenia. In situations where the investment manager is a regulated private equity fund, the ratio of invested equity to bank loan is 2:1, the interest rates are not high, and are comparable to market interest rates for legal entities. Very few loans to legal persons for the purchase of businesses have been traced. Loans to employees to buy shares in a company are even less likely – in discussions with capital market stakeholders, no such cases have been found. In addition to this, commercial banks currently have sufficient demand for easy and secure credit, such as long-term housing loans to individuals and investment in mature companies to expand their capacity with good borrower cash flow. Consequently, the commercial banks' interest in non-standard loans with higher capital requirements and higher risks (e.g. WBOs) is low.

4.5 Capital markets and advice on corporate finance

The few existing participants in the capital market in Slovenia require the same conditions for financing WBOs as for other credit demands. These conditions typically involve an appropriate loan-to-value ratio (usually 1.5:1), where collateral should not be correlated with the loan's purpose (typically, real estate serves as collateral). The ability to repay the loan is evaluated based on past business performance and analysis of business plans for the financing period. Besides collateral, the capital-to-debt ratio, free cash flow and financial obligations are crucial factors. These ratios are contingent upon a company's operations. However, commercial banks impose stringent limitations, making it challenging for businesses with excessive financial leverage to obtain loans.

In Slovenia, there are several advisory firms that provide comprehensive support for company acquisitions. Experience shows there is less expertise in corporate finance where employees are interested in buying a stake in the company, and input or advice from external experts is needed. However, as with participants in the capital market, these firms have not developed a product for comprehensive support of WBOs. The challenges of limited expertise were mentioned in interviews with businesses that have undergone WBOs. Nevertheless, the advisory firms generally exhibit high levels of expertise and adaptability, and in the event of increased demand for WBOs, they could quickly adjust their services to support such endeavours.

05 Market gap and suboptimal investment situations

Given the absence of WBO models, the purpose and benefits of their use remain hypothetical. The disclosed details regarding the number and examples of WBOs in Slovenia are limited. The interviewees emphasised that if the government provides support through legal and tax frameworks and if relevant stakeholders engage in systemic advocacy, demand for WBOs is likely to increase. This is also confirmed by the demand-side analysis above. However, due to the absence of systemic solutions for workers and a lack of financial knowledge, together with an underdeveloped capital market, implementing WBOs has been challenging. It is expected that in the coming years, the demand for WBOs will increase. Active participation of multiple stakeholders, including the government, banks and syndicates, will be crucial to facilitating the establishment of WBOs. As the supply side of any financial or non-financial support schemes is very limited, the market gap corresponds to the constraints on WBOs described already in Chapter 3.2:

- Access to finance.
- Legislative support to sustainable WBO models.
- Technical assistance.

Access to finance

Currently, there is a clear market gap for WBO finance and there are no supportive financial instruments such as loans and guarantees or other types of financial mechanism that would incentivise creditors to finance WBOs in Slovenia. The country's commercial banks and alternative funds do not venture into this field. They are unfamiliar with WBO finance and perceive low demand, thereby lacking development of specific products or allocation of funds for such purposes.

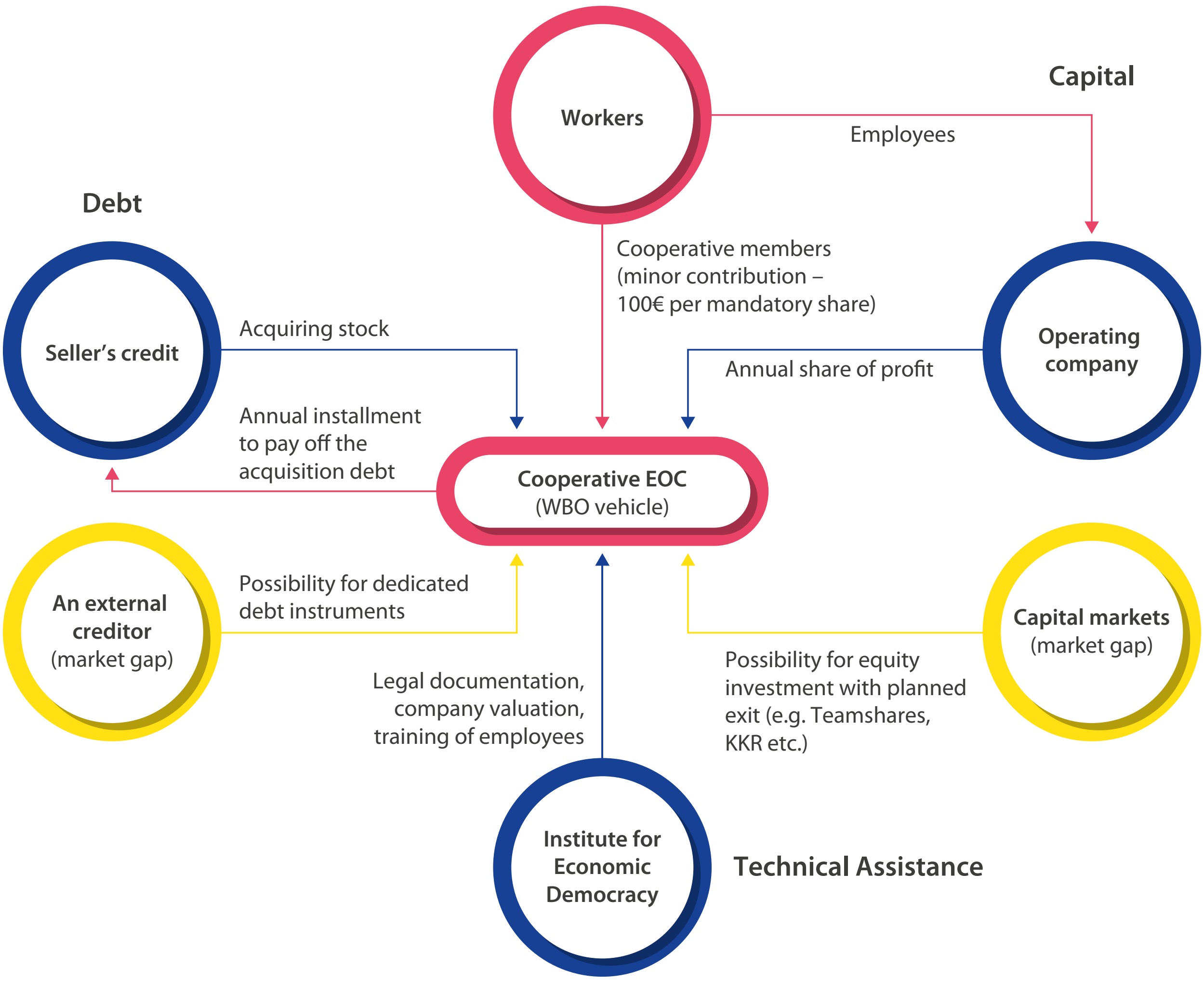
Based on insights from this study, there is a clear need for suitable institutional financial support and innovative solutions, in particular for leveraged self-financed WBOs. For broad-based WBOs, provision of possible sustainable sources of finance ought to be considered that do not require personal investment by the workers, and that also help bridge the LBO with access to debt capital and other instruments. A financing mechanism that relies on leverage could address the financing problem behind the low purchasing power of workers, by devoting a part of the future profits of the company to finance the purchase of shares in the name of all the workers in the company. Ideally, this mechanism would be complemented with a long-term debt instrument (loan guarantees, subsidies of interest rate, subordinated (secured) debt, and other instruments that could be provided by the Slovenian government (including through the European Social Fund Plus (ESF+) and /or the involvement of the EIB Group), which would provide the immediate capital to purchase the shares and would be serviced by the company's future profits. Leveraged WBOs would address the problem of a lack of capital on the side of the workers, and the external financial instruments would be required to complement the seller's credit option in situations where the exiting owners are not willing to be paid out gradually over time. The role of commercial banks in providing support to WBOs is crucial, but before the market for such instruments develops, government and EU aid is paramount to lower the costs and give a positive signal to creditors. Ultimately, better, systematically regulated public financing could greatly increase the demand for WBOs.

In addition, the EU or state funds could help alleviate the problem of financing leveraged WBOs by offering various financing options, including off-balance sheet financing structures such as project financing or asset-based lending. These structures can help companies separate the loan from their balance sheet, thereby reducing negative impacts on their creditworthiness and maintaining their borrowing capacity with traditional banks.

Required supportive ecosystem for the Slovenian ESOP model

Figure 4 below illustrates the Slovenian ESOP model and the supporting institutional actors which, based on international best practice, are required for the successful scaling up of WBOs in the economy. The Slovenian ESOP model itself is described with three interdependent parts in the system; (1) the Employee-Ownership Cooperative (EOC) as a holding vehicle through which the WBO is facilitated, (2) the employees who become co-owners as members of the EOC, and (3) the operating company through which the leveraged buyout is financed. The seller of the ESOP shares (which can be the existing shareholder/owner or the company itself, issuing new shares or selling treasury shares) can provide part of the acquisition debt in the form of a seller's loan, which provides security for other (external) financiers - the equity and debt markets. At present, the Slovenian ESOP pilot projects are mainly financed by seller's credit. Equity and debt instruments are not available in Slovenia, but there are initiatives trying to establish alternative funds that would help with ESOP transactions. Finally, another important actor in ESOP transactions in Slovenia is the Institute for Economic Democracy (IED), an organisation that provides legal expertise and training to companies involved in WBOs.

Figure 4: Required supportive ecosystem for the Slovenian ESOP model.



Source: Author.

06 Case studies of WBO examples

The four case studies have been selected as representative of the Slovenian context. Their diversity showcases the particularities and potentials of the WBO phenomenon in Slovenia. The featured companies are: Inea, RBT Technologies, Domel and Etiketa.

6.1 Company #1: Inea description[40]

INEA

Inea d.o.o. was established in 1987 and currently employs around 110 people. Its field of operation is industrial automation, process control, manufacturing intelligence and industrial energy management. Inea exports 90% of its services and products and in the past five to seven years, it has been listed among the 100 largest Slovenian exporters. Inea is a spin-off of the Jožef Štefan Institute (IJS)41 in Ljubljana. As part of the employee buyout based on the European ESOP model, the company founded a cooperative. In August 2023, one share was transferred to the cooperative because a full transfer would require additional financing by the cooperative (debt to the company for the treasury share). However, until this issue is resolved, the existing owners and the employee representatives have agreed that 100% employee-ownership is established through internal acts of the company – the ESOP cooperative has 100% profit rights, 100% capital appreciation rights, and 100% voting rights on the board of directors. Inea d.o.o. is now a 100% employee-owned company, which conducted its WBO in response to a succession challenge.

6.1.1 Reasons for the WBO – needs and preconditions

Since the company's inception, there has been an agreement and commitment between the owners that Inea would be 'internally' owned. The original internal acts of the company also stated that Inea is an employee-owned company. Over time, with the retirements and departures of certain owners from the employment structure, the company's ownership was increasingly slipping out of the hands of its active employee-owners. The ownership model in use was direct share ownership by individual employees, which is not a sustainable employee-ownership model. Direct EO eventually faces succession problems and does not address the issue of ownership transfer during a generational change of workers. There was no automatic mechanism to transfer ownership to the new generation of active employees when the previous generation of employee-owners retired.

40 The interview was conducted by the IED in 2023, with three key people in the business, i.e. the current Chief Executive Officer (CEO), the Chief Commercial Officer, and the Retired Founder who was one of the main advocates of the WBO.

41 The Jožef Stefan Institute is the leading Slovenian scientific research institute, covering basic and applied research. Its staff of about 1050 specialises in natural sciences, life sciences and engineering. The IJS's mission is the accumulation and dissemination of knowledge 'at the frontiers of natural science and technology to the benefit of society at large, through the pursuit of education, learning, research, and development of high technology at the highest international levels of excellence (Jožef Stefan Institute, *Institute at a glance.* [Online]. Accessed on 10 September 2023, available at: https://www.ijs.si/ijsw/JSI.

As a result, when owners retired, they kept their stake in the company. The owners at the time also realised that the growth of the company could not go hand-in-hand with the purchasing power of the owners. The number of owners gradually increased from around 15 owners originally, to approximately 40 owners, although these were mainly minor owners (there were around five or six major owners who owned about half of the company's shares.). Another challenge was to artificially keep the number of owners below 50, which is the upper limit of shareholders in a d.o.o. based on Slovenian corporate law; if not, the company would potentially have to register as a d.d., which it wished to avoid.

An important motive for the WBO was to keep the added value created in the company in the hands of the people who created it, rather than it going to external owners. This was particularly aimed at achieving employee motivation and organisational affiliation. Thus, in choosing the model for the WBO, there was a need to provide a dynamic that would ensure that the old owners, who are no longer employed, exit from ownership, and that company ownership stays tied to those who are actively employed by the company. Inea's previous model of direct ownership by individual employees, which was in place for more than 30 years, did not factor in the retirement of employees. It became clear that it is not a practical model, especially when a business is growing, since the departing shares then grow increasingly more expensive and you either need more employees to buy those shares from departing owners or those employees must have much stronger purchasing power to be able to consolidate all the departing shares. It was clear that the direct EO model does not effectively address the succession problem. At the time, however, Inea's management was not aware of any other suitable model for a WBO.

A disagreement between the owners on the ownership strategy quickly arose and in 2019, some of the owners communicated with the IED. After long discussions, they became convinced of the advantages of the European ESOP model. As described earlier, the main motive of the group of owners in favour of the sloESOP model was to preserve internal ownership and legacy. One of the founders initially presented the European ESOP model to other workers at an assembly. Some of the 15 owners had reservations about the idea, whereas others were very positive. Some felt that the European ESOP model solves several problems that other models do not. For the most part, they discussed among themselves and with the managing director how this system would work. Middle-management and junior staff then gradually entered these conversations. The younger employees in particular were very keen on the model, since it allowed the whole collective of employees to jointly purchase shares from departing owners using financial leverage.

Notably, sloESOP addresses the problem of ownership succession:

- The model eliminates many legal problems related to direct ownership in a d.o.o. company, since it systematically deals with employee fluctuations by automatically and gradually vesting ESOP shares to new employees and automatically and gradually buying ESOP shares from departing employees.
- The conditions of entry, ownership rights, governance rights and exit are clearly defined. No employee owner can individually transfer, trade or sell their ESOP shares, which prevents conflict between owners on exit; the possibility of exit can only be a collective choice achieved through a majority decision (in the case of Inea, a 90% democratic vote needs to be in favour of selling ESOP shares).
- The model also ensures broad employee participation in ownership, which is in line with Inea's internal acts and values. The company is particularly attracted to the democratic orientation of the model, since each employee-owner, regardless of their capital shares, has one vote in the general assembly, which delegates mandates of the board of directors which, in turn, delegates the positions on the management board.

One precondition for establishing the ESOP model is that all existing owners agree to that option. Since they have a right of first refusal, the owners that are not in favour of the model could otherwise stop the process or vote the option out at the shareholder assembly. In Inea's case, phasing in the ESOP was considered. As many of the owners at the time were reluctant to commit to a 100% ESOP, there was an agreement to introduce a 10% ESOP first. For some businesses, the WBO would be conditioned by a change in the company's social contract; however, in the case of Inea, that was not necessary until the cooperative was formed. This serves the function of a special purpose ownership vehicle in the ESOP model. Before the cooperative became an ESOP shareholder, the contract needed to be changed and the shareholder assembly needed to accept the cooperative as a co-owner. There was no legal or banking deadlock regarding business performance or stability. Internally, the employees were asked if they were in favour of the WBO based on the sloESOP model presented by the IED. During a 'proto' general assembly meeting of all future worker-members, a large majority of the employees voted in favour of the ESOP (more than 95%). Another important precondition for a WBO via the European ESOP model, is that there are sufficient profits available annually to pay off the acquisition debt, that is, the shares of the exiting owner. In Inea's case, there was no state support available for the WBO.

6.1.2 WBO description

It took a considerable time for Inea's owners to reach agreement on the buyout via the sloESOP model. Some of the owners first contacted the IED around 2019, but other owners remained unwilling to sell their shares for a long time.

This meant the company came very close to a conflict and potential closure. Additionally, an unfavourable legal environment and lack of supporting infrastructure for WBOs in Slovenia made the process anything but smooth. Contrary to the IED's recommendations, for the first phase of the WBO, the company's management chose to buyout other internal owners through an SPV using a d.o.o. company. This was due to legal obstacles and the fear of tax implications.

Thus, the owners first decided to sell their shares to the newly founded d.o.o. company, which was, after a complex legal process, merged with Inea a few years later. In this way, the shares became treasury shares, leaving the outstanding 15% of shares (held by the current managers who are pushing for a broad based WBO through the sloESOP) *de facto* 100%. In the buyout process, two separate purchase contracts were made, as about half of the major exiting owners insisted on being paid out in two instalments over the next two years. The first instalment was financed by cash reserves and the second partly by the cash reserves of the company and partly by a loan. The loan was provided by a commercial bank for the financing of operating capital, and it covered less than a quarter of the company's value paid to the exiting owners, thus decreasing the firm's capital. The other half of the departing owners, who were supportive of the ESOP buyout, agreed to be gradually paid through seller's credit, from anticipated future Inea profits. In June 2023, the second of the three instalments was transferred to these owners.

The banks have interpreted Inea's WBO as a managerial takeover, which they have used as a reason to deny financing. This occurred despite the company's clear intention of creating a broad-based ownership structure with all the employees included. The newly formed cooperative was shown to the banks as proof that a managerial takeover had not taken place; however, the banks were not convinced. Moreover, some of them were explicitly opposed to the cooperative, or its predecessor (the new d.o.o. company). The banks question why the new d.o.o. company exists and interpret it as an entity that is draining the company. They also show a lack of understanding of the impact of Inea's merger with the new d.o.o. company.

There has been no technical assistance from the state for this WBO. Inea's experience is that there is a lack of legal experts on WBOs and cooperatives. They have found that even the auditors mix the concepts of acquisition and merger. In the case of Inea, the auditors did not understand the point that for a merger it is not necessary to have retained profits match the entire capital of the legal entity that is being merged into the operating company.

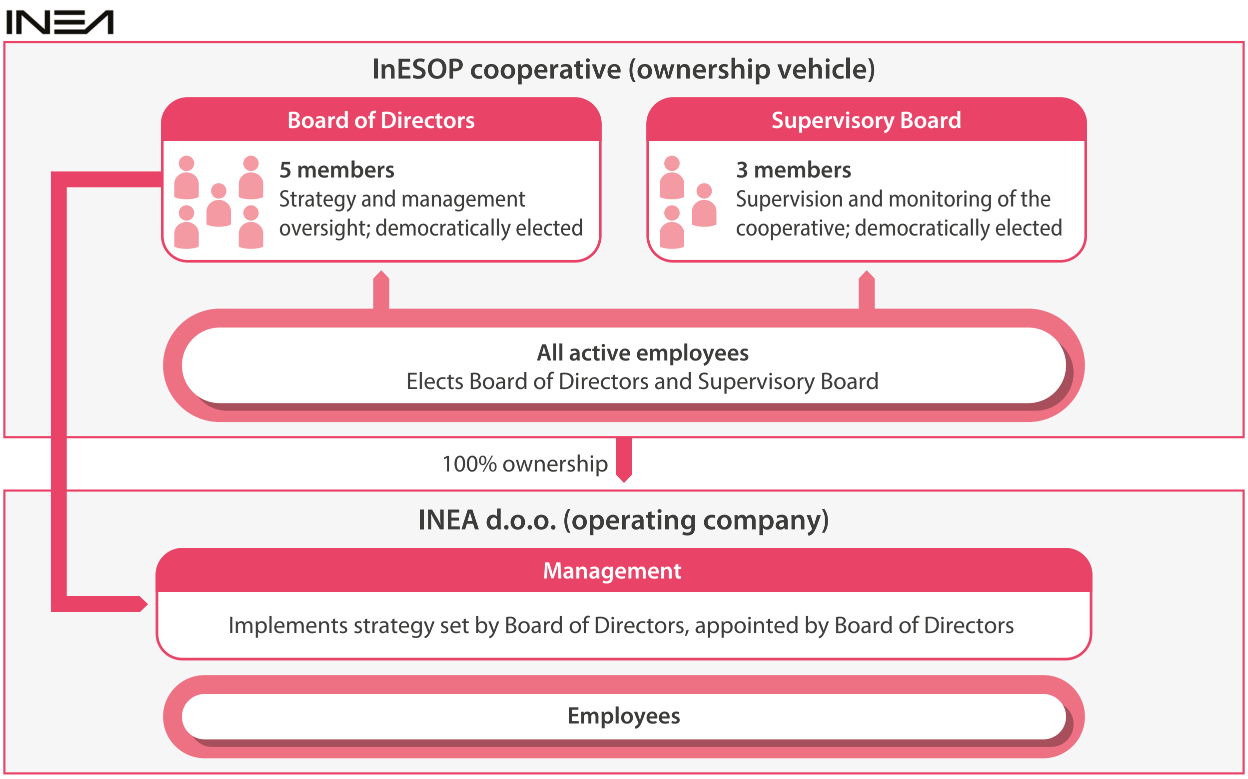
Inea has overcome the legal obstacles in the WBO process with the help of expert consultants knowledgeable on this topic, namely a retired judge and a retired tax consultant and auditor, both aged around 70, and thus belonging to the generation that still understood the principles of socialist self-management. Inea found that institutional stakeholders (agencies, legal advisors, tax advisors, financial advisors, auditors, AJPES, SID Bank etc.) generally indicated distrust and opposition to WBOs, often on ideological grounds.

Practically all Inea's knowledge about the ESOP has been drawn from the IED. There are currently no other institutions or expert organisations in Slovenia that could have offered technical assistance on the WBO. Without IED's support, the Inea respondents believe they would probably have turned to their financial advisors. However, they are aware that the advisors' focus on sales or optimising processes, would probably mean they would not suggest a WBO to solve the company's ownership succession issue. Inea management thus highlighted a pressing need for technical assistance as part of a WBO transition that could take several years.

Governance structure and economic rights

The complex legal and financial process and lack of institutional support meant that shares in Inea were transferred to an ESOP cooperative in the summer of 2023, years after the beginning of the project and more than a year after the cooperative was established. Its board of directors and supervisory board elected in December 2022. The board of directors comprises five members, while three people are on the supervisory board. The latter monitors and supervises the operation of the cooperative, which is based on a democratic 'one person, one vote' principle. In the sloESOP model, the ESOP acts as an owner, i.e. the general assembly discusses strategic decisions and adopts a general strategy, which is then implemented by the management, which is appointed by the board of directors. The employee-members in sloESOP have the board of directors which represents the ownership interest at the general assembly of the operating company and decides on key strategic matters.

Figure 5: Governance structure of Inea d.o.o.



Source: Authors.

The WBO transition period in Inea was bridged through an agreement between the remaining owners and the workers, which states that the ESOP cooperative has 100% of the voting rights and profit rights even though it is not yet the 100% owner of the business. In this way, the ESOP was de facto established, even before it became a shareholder in the summer of 2023. Through the sloESOP, workers receive profit rights and have a claim over the value of the capital held by the ESOP cooperative (shares of the underlying company). In the first phases, when the acquisition debt is being paid off through profits, the value of the credit payments is credited in the form of shares allocated to individual capital accounts (ICAs) of each individual member in a cooperative. This system resembles the system of ICAs in the ESOP firms in the USA and in Mondragon cooperatives[42,43]. After the acquisition debt is repaid and all the internal shares are distributed to ICAs, the reinvestment of profits increases the value of shares in those individual accounts. The ICA capital structure prevents the skewed investment incentive found in WBO models with collective ownership, where the first generation of workers pays the acquisition debt without receiving anything in return (i.e. 'going out naked'). After the acquisition debt is repaid and all the internal shares are distributed to ICAs, Inea workers will receive rights to a 100% share of distributed profits (dividends) and a 100% share of capital appreciation value through ICAs.

6.1.3 What was the impact of the WBO

While Inea is growing, it is difficult to estimate the extent to which this is the direct impact of the ESOP. Potential positive impacts of the WBO are mostly seen in terms of employee motivation, engagement and performance.

Some of the company's managers have strongly supported this model, so it can be assumed that it motivates them significantly. The employees who make up the board of directors and the supervisory board are noticeably more engaged and interested in more things than prior to the WBO. Employees have shown a great deal more engagement in terms of making suggestions than before the WBO. The members of these boards are also involved in infrastructure matters – e.g. they discuss issues such as potential purchase of assets with the managing director.

Inea's turnover has always been extremely low, as much as five times lower than in a comparable company, and this has not changed. With a supportive ownership culture, the ESOP model can significantly reduce turnover in companies where it is relatively high. Since Inea is implementing an ownership culture in which employees receive training and where active participation is encouraged, we anticipate that the turnover and other similar indicators will improve in the future. This is supported by research looking at the relationship between employee ownership, organisational culture and corporate performance of ESOP companies[44].

There has been no observable effect of the WBO on the market, none is expected. It is believed that this would require a community of employee-owned firms willing to support each other. An example of such a community with certain common services, resources and a legal department, where companies assist each other to bridge potential difficulties, can be seen in Mondragon. While there is potential for such a community to develop in Slovenia, it is still early. The views of the Inea representatives are based on their own experience of unsuccessfully trying to obtain financial assistance from some employee-owned companies that could have easily afforded it, but which nevertheless have behaved like classic investors, rather than showing solidarity. Nevertheless, Inea intends to become a strong player and building block of this future community.

42 A system of ICAs is an important invention for the capital structure of employee-owned firms, since it ensures an individual claim over the capital appreciation of the employee-owned company (the value of ICA is increased proportionally with a share of profit reinvestment for each individual worker-owner) and it ensures the sustainability of employee ownership through changes in generations of employees (workers cannot freely dispose of or trade ICA shares/values or keep the shares after they leave the company. There is a set of rules that clearly define where a worker can cash out the value of ICAs, while it is necessary to be employed by the firm to hold such an account.

43 The Mondragón Group is a corporate consortium based in the Basque Country of Spain that encompasses 95 worker cooperatives spanning the financial, industrial, retail, and knowledge sectors. With a combined workforce of approximately 80 000, it has a presence in 150 countries.

44 Harvard Business Review, *The Big Benefits of Employee Ownership*. [Online]. Accessed on 31 January 2024, available at: https://hbr.org/2021/05/the-big-benefits-of-employee-ownership.

Financial implications

Inea's biggest problem in terms of financing was that some of the exiting owners wanted payment in full straight away, which was more than the company could afford at that time. Inea paid out an amount surpassing the company's net worth. As a result, Inea had a lack of operating capital, which posed a liquidity problem since the company's cash reserves were used to finance the buyout. The situation greatly worsened the company's financial picture, which negatively affected its credit rating and the ability to obtain credit.

The capital structure has changed in such a way that the largest capital item now is goodwill, with severe negative impacts. While the company previously discussed expanding its credit with its bank, the bank's position now is that Inea is beyond normal sustainability. This made it very hard to secure a long-term loan, so Inea now has a revolving loan, on unfavourable terms. While the company is unable to obtain new loans, there are also significant problems in extending the revolving credit. Inea is increasingly taking on larger projects that need more material, making its current situation very challenging for an otherwise healthy and profitable business with good prospects. All the firm's current problems derive from the fact that it facilitated a WBO.

Role of additional funding

There was no state support financing the Inea WBO, no specialised financial instruments to support the buyout, and no commercial debt dedicated to it. Instead, it was partly financed by cash reserves and partly through leverage. In its transition phase, what the company now needs most is a long-term loan that would cover or bridge the shortfall caused by the large pay-out to exiting owners. While Inea can finance the WBO-related loss of capital from its profits, it needs operating capital. An operating capital loan would help it focus on business, instead of having to deal with revolving loans. There is a strong need for additional funding, and for organised financing assistance for a transition that can take several years. Access to better, systematically regulated public financing, is therefore seen as a strong priority by the company. When Inea applied for financial support for its WBO, SID Bank did not consider the firm creditworthy, even though, as emphasised by the Inea respondents in the interview, it is clear that the balance sheet naturally deteriorates when a significant share of the capital is paid out. Moreover, according to the interviews with SID Bank personnel, ownership succession in the SME sector is one of the key points that the bank is addressing.

Slovenian banks have all behaved reluctantly and have shown no understanding of the needs of a company pursuing a WBO. Notably, the banks have displayed a lack of understanding and unwillingness to examine and support Inea's case for a WBO. The company tried to raise capital with several banks, yet all of them opposed the financing of a leveraged WBO. This meant that even when Inea applied for credit for working capital and justified it as such, the banks interpreted that as indirect financing of ownership restructuring, and therefore rejected the application. This was the interpretation of all the banks the company contacted, even though the application for a working capital loan was supported by an actual project, through which the company demonstrated its cashflow.

The company has noted there is a big difference in the cost of loans from banks, compared to those offered by private capital. There are certain instruments, people and institutions that enter the company's capital structure with the intention of exiting, rather than with the intention of permanent ownership. While this option is available, it is approximately five times more expensive compared to a bank loan. Inea's WBO, involved no private funding. Nevertheless, if the banks are not ready to support WBOs with credit, the company identifies a definite need for private financing.

Although no EU funding has been involved or available to support Inea's WBO, it would be beneficial.

Table 3: Inea's financial structure.

% workers' share capital at the beginning	Minor, collected through membership contributions, which were EUR 100 per member (ESOP implementation required no personal capital from workers, as the ESOP was a fully leveraged buyout)
% of employees included	100%
% of ownership in the hands of employees	100%
Equity	Roughly half of the acquisition price was financed through seller's credit (sellers agreeing to be paid out over time), which is considered as equity financing in the context of leveraged buyouts
Debt financing	Inea incurred a lot of acquisition debt during the buyout. The acquisition debt was in part financed by existing cash reserves, in part by seller's credit, and a minor part by a loan provided from a commercial bank. The WBO led to liquidity challenges for Inea, because half of the owners wanted to exit without deferred payments, while there was no real possibility for commercial or private debt.
Other financial support	None
Other non-financial support	IED – technical assistance for WBO transition
Transaction costs	Transaction costs were incurred because banks were not willing to provide debt financing despite the high initial credit score of Inea, so the company had to rely on expensive private loans to finance the operating capital. Transaction costs were also incurred because of lack of regulatory certainty for the WBO – the process lasted for more than two years, incurring high opportunity costs.
Public national financial support	None
Public EU support	None

Source: Author, based on Inea interview.

6.1.4 Lessons learned

The case of Inea confirmed the findings presented in Chapter 3.2 on Constraints for WBOs, namely:

- There is a noticeable need for a service to guide companies through the entire process of a WBO, and above all to help with implementation, financial work and credit. This is especially important in the case of larger companies. Furthermore, there is a general lack of experts in Slovenia in taxation, cooperative law and the legal implications of mergers and acquisitions (M&A) who could advise in a WBO.
- It is important to educate retiring owners about WBOs and the benefits of a gradual pay-out to the exiting owners.
- It is necessary to systematically work on the organisational culture, so that employees are reintegrated or integrated in a different way. The management is also aware of the need for ongoing training of all employees to preserve the values and commitment to internal EO.
- Furthermore, legislation that creates a favourable tax environment, is sorely needed and very important for the promotion and realisation of WBOs.

- There is lack of financing available in alternative funds, a general lack of appropriate financial funds, and a lack of interest from commercial banks. Those banks must be made more aware of WBOs to increase their appetite to finance them. Currently, the only loans available are regular loans. It is necessary for the banks to realise that employees, especially young people, are largely unable to finance the purchase of company shares with their own capital. Most of the time, they cannot bring in more than one or two salaries.
- It is important for Slovenia, the EU, and other EU Member States to realise the extent of the negative impact and potential loss caused by established and successfully companies like Inea closing due to unresolved ownership succession. Slovenia is currently approaching a wave of retirements of company owners who founded their companies in the years immediately after independence. The negative effect on the national economy and on local communities of a wave of established companies closing could be enormous and can be prevented. Considering this and taking into account the sustainability of firms owned by their active employees, as in the ESOP model, and the positive influence of such companies on the local community, it is important for the state and banks to recognise internal WBOs as a primary mechanism of succession. One of the ways in which the European ESOP directly encourages responsible and long-term oriented behaviour is its roll-out mechanism, which ensures that when an employee-owner leaves the company, it is in their best interests to leave it in the best possible condition, since they will not be paid off immediately, but gradually.

6.2 Company #2: RBT Technologies[45]

RBT Technologies was founded in 2011 as a company dedicated to selling automation equipment from manufacturers Mitsubishi Electric, HMS Industrial Networks and Kepware Server Technologies. Initially, it was co-owned by Inea d.o.o. and Robotina d.o.o., two high-tech Slovenian companies46, which aimed to strengthen their existing cooperation with the Japanese company, Mitsubishi Electric.

Today, RBT Technologies d.o.o. is a specialised company for the supply of automation equipment from leading manufacturers. It offers Mitsubishi Electric automation equipment, HMS Networks communication components for industrial communication and smart installations in buildings, as well as KEPWARE and OPC Router digitalisation software solutions. It is a small firm with 10 employees, located in Ljubljana, Slovenia.

6.2.1 Reasons for the WBO - needs and preconditions

RBT Technologies d.o.o. was spun off from Inea, a company that became employee owned when it was privatised in 1990. Thus the idea of employee (co)ownership was familiar to the workers and management of RBT Technologies. Management advocated for a WBO, believing if the workers became co-owners of the company, they would advocate more for it, rather than "look at their watches, waiting for the eight hours of work to pass".

There was also the question of the effect on motivation, if workers saw a colleague take sole ownership of the company, it could be demoralising for others who had worked for the firm for a long time and didn't have the same opportunity. However, most employees were unlikely to be able to individually purchase shares in the company.

45 The interview with the current CEO was conducted in 2023, by the IED.
46 Inea RBT, *Who we are (Kdo smo)*. [Online]. Accessed on 15 June 2023, available at: https://www.inea-rbt.si/o-inea-rbt/kdo-smo/.

Another factor was an upcoming generational change of workers, i.e. the succession issue. In this way, companies with long traditions can simply vanish from the economy, and with them, in many instances, all the highly specific skills and knowledge accumulated over the years.

RBT Technologies chose the sloESOP model because of its previous arrangement for including its employees in the ownership structure. This policy allowed key employees to buy back shares in the company at book value on an internal stock exchange. Some employees retired, while younger workers came in on projects and generated income. The employees were rewarded with good salaries, and there was a model in place for the distribution of annual profits. Based on the latter, more than half of the annual profit would be reinvested in the firm's development and new projects, one part would be distributed to the owners, another part to the workers as a 13th salary, and one part would go towards management bonuses. The firm's key employees could use their bonuses to buy shares on the internal stock exchange, provided that other shareholders were willing to sell their shares. Initially, few were interested, but later more owners or their heirs sold their shares. Nevertheless, the decision on when or how much to sell was left to each individual owner/shareholder.

According to the company's policy, at least 50% of its ownership should be internal, i.e., in the hands of the employees. However, over time more older owner-workers retired, but were allowed to maintain the status of internal partners. Only people who actually left the company would be considered outside partners. Notably, the owners would wait for the value of their shares to rise before selling them. The result was that the number of shares belonging to active workers became less than the number of externally held shares. At that point, it became clear that a change was necessary. An EO model which includes all employees and solves the recurring problem of retirements as well as ownership succession seemed to be the only solution. In this way, the company could ensure the healthy circle of ownership remaining with active workers. The sloESOP model provides this solution and for RBT Technologies d.o.o., there were no other WBO models on the table.

Our interviews suggest that external expertise has played a crucial role in facilitating the WBO in RBT Technologies. It was the IED which brought the model to the company's attention. The institute has also provided training, seminars and workshops, to give management and workers relevant information on the WBO model, associated rights and responsibilities and guidelines on ownership culture. Since a WBO is a complex legal process, it is important to employ external expertise to complete the legalities of the ownership process. However, according to the company respondents, the regulatory framework will be the main motivator and precondition for scaling WBOs in Slovenia. The idea needs to be legally supported and enabled, possibly through tax reliefs. They compare this to the second pillar – a voluntary occupational pension plan in Slovenia, which is partly financed by employers and partly by employees and supported by the state with tax incentives. According to the interviewees, this would not be detrimental to the state, which would, through multipliers created by the incentives, collect more taxes in the mid and long run.

6.2.2 WBO description

When RBT Technologies decided to pursue a WBO, it first bought out the 30% stake owned by one of its initial investors, Robotina d.o.o. in 2021. In 2022, it signed a similar contract for the 70% stake owned by Inea d.o.o. RBT Technologies made the final payments to Inea by the end of 2023. Ownership is now fully in the hands of the ESOP which owns 10% of company shares, while seven of the nine employees hold the remaining 90%. The long-term plan is to increase the share of ESOP ownership over time by buying the shares of the remaining employee-owners.

RBT Technologies has two WBO models in place: one based on direct stock purchasing or ESPP, while the second is an ESOP cooperative in the making. The decision to implement the sloESOP model coincided with higher turnover and higher profits, so there were sufficient resources for the first steps of the process, accumulated from the profits of the previous years. As the company reserved enough funds for the buyout in 2022, there will be no need to use 2023's profits for this purpose. Established in 2022, the cooperative is yet to obtain a share in RBT Technologies. As of 2024, 80% of employees directly own 90% of the shares, while an ESOP holds the remaining 10%.

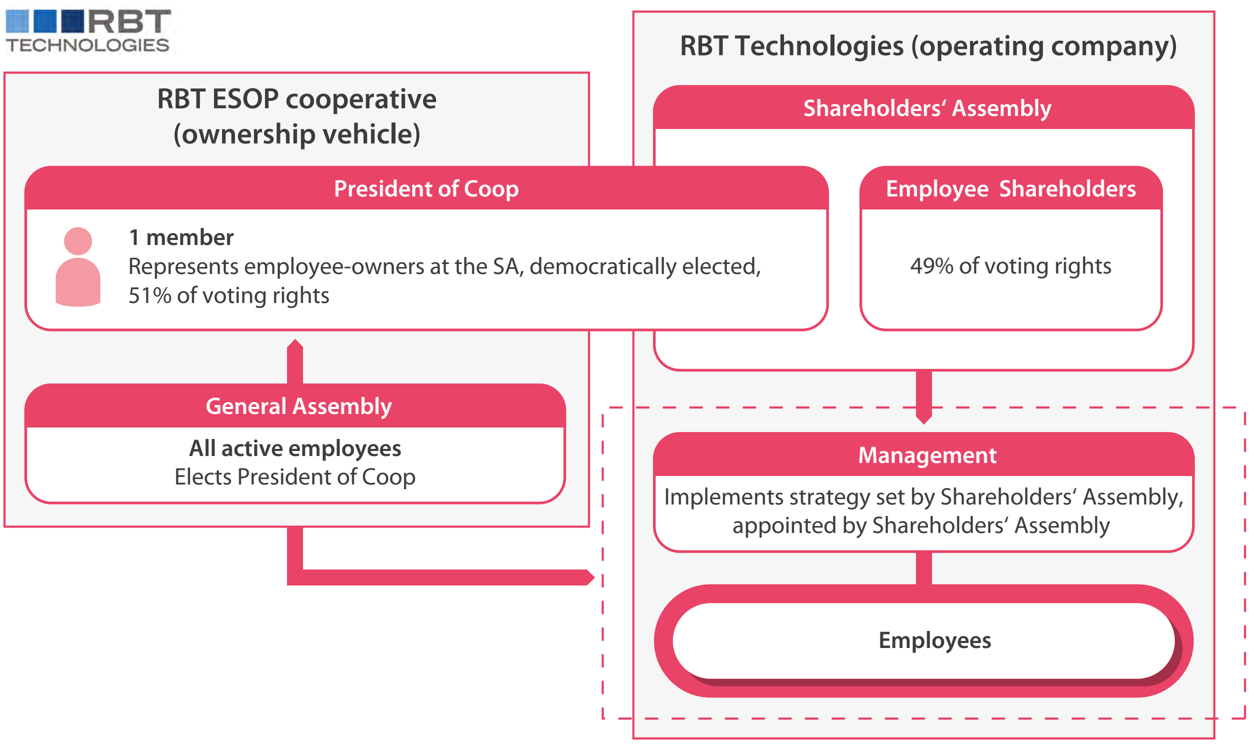
At the start of the WBO process, the managing director and the sales and marketing director lent part of the money needed to the company. They were also the guarantors for the additional loans, taking on most of the responsibility for the WBO strategy. Moreover, when the employees first decided to purchase some shares from Inea d.o.o. (still RBT's owner at the time), two employees chose not to participate, since they had other personal expenses. However, the managing director believed in the idea so strongly that he offered to lend them his own money to participate in the share purchase.

In terms of financing, RBT Technologies' managing director and head of accounts had an in-depth meeting with a bank to secure a loan, but were denied because the bank said there was too much risk involved. The banks often see WBOs as management buyouts, which is their biggest fear. Currently, RBT Technologies has a great relationship with DBS. The company is waiting to see how its experience and anticipated legislative changes in Slovenia unfold, to determine whether the ESOP model can really meet expectations. If it does, all the individual shares will be transferred to the ESOP. Until then, the current owners will keep a small part of the ownership of the established cooperative.

Governance structure and economic rights

The RBT Technologies ESOP will receive a small majority of outstanding shares (anticipated 51%), which will give it 51% of ownership rights, i.e. profit and governance rights to the cooperative owner, and indirectly to individual workers. In the sloESOP model, the workers have full rights over the reinvested and paid-out profits of the company. In RBT Technologies, the workers will receive the rights to a 51% share of distributed profits (dividends) and a 51% share of capital appreciation value through ICAs. In terms of governance rights, the workers currently hold 100% of voting rights through individual shareholding. However, when the ESOP becomes a shareholder of 51% of outstanding shares, the worker-members will have a small majority in the shareholder assembly represented by a cooperative president, democratically elected by all the members in the cooperative.

Figure 6: Governance structure of RBT Technologies d.o.o.



Source: Author.

6.2.3 What was the impact of the WBO

The structure of RBT Technologies and its day-to-day work have not changed substantially since the WBO, apart from the employees now receiving more information about the company. It is important to note that the WBO is not yet fully implemented, so the changes in employee attitudes are expected to be gradual and facilitated through the educational ownership culture programme. The management's idea is to focus more on the ESOP when the buyout of Inea d.o.o. is completed. As mentioned earlier, while the cooperative has been established and the main governance bodies appointed, the RBT Technologies ESOP is not yet fully operational. The company has also not yet publicised its restructuring or the implementation of sloESOP. Nevertheless, the firm has achieved great success, which can be at least partially attributed to its developing ownership culture. While many companies struggled during the COVID-19 pandemic, RBT Technologies flourished. It achieved the highest turnover, highest sales and highest profit since its founding. Representatives of the company believe this is because employee-owners tend to be more driven.

Financial implications

Bank guarantees of RBT Technologies to the principals expired in October 2023, and so did the revolving credits. Because Inea d.o.o. is no longer the owner of RBT Technologies, the company has become slightly riskier in the eyes of the bank. The coming period will therefore be crucial, and the main question is whether the bank will change its conditions. It may take the opportunity to change terms and raise interest rates. The management has already been told to consider an additional warranty. While previously, several signed blank bills of exchange/promissory notes served as guarantee, conditions could change in the future. There is a possibility the bank could consider the firm's accounts receivables or warehouse assets as guarantee for a loan. In one interview it was said it would not be surprising if the bank suggested that the managing director mortgaged his home.

When the company was still largely owned by Inea d.o.o., which had a good reputation at the time, the banks considered that as security. Inea d.o.o. was also the sole guarantor for RBT Technologies' loans, by signing blank bills of exchange/promissory notes. Two years ago, however, RBT Technologies decided to stop relying on Inea d.o.o. as a guarantor and started to cover the financing of the business on its own. This was accepted by the bank, but it is not certain what will happen in the future.

As of 2023, RBT Technologies no longer has any credit or revolving credit line open with Slovenian commercial bank. In April 2023, the company took a loan from DBS, which it paid off by the end of that year. The only outstanding creditors are the managing director and sales director. RBT Technologies also intended to buy out Inea d.o.o. in advance of the 2025 deadline, to be able to benefit from a 5% discount.

Role of additional funding

RBT Technologies has not received any state or EU funding for the WBO process. The interview with the company suggested there is a strong need for additional funding, be it public, private or EU resources. One possibility mentioned was co-financing with a longer period for paying back the loan, for example 10 or 20 years. In that way, a WBO such as that of RBT Technologies can be carried out much quicker and easier. Furthermore, annual revolving credits make it hard for a company to plan and finance larger projects. It is evident that without additional funding, the restructuring process for employee ownerships is very difficult.

Based on the interview, private funding has potential, especially if individuals see the opportunity and above all, trust the company going through the restructuring process.

Table 4: RBT Technologies' financial structure.

% workers' share capital at the beginning	Minor, collected through contributions from the members, which were EUR 100 per member (ESOP is a fully leveraged buyout, so none of the workers' own capital is involved)
% of employees included	100% through ESOP, 65% through ESPP
% of ownership in the hands of employees	10% through ESOP, 90% through ESPP
Equity	A part of the purchase price for the WBO stock was financed by seller's credit – the seller agreed to be paid out over time
Debt financing	There were two sources of debt financing for the RBT Technologies WBO. Firstly, the managing and sales director both provided private debt to the company. Secondly, a small cooperative bank offered the rest of the debt capital; however, officially the capital was not used for the WBO but for the operating capital, due to Bank of Slovenia rules on leveraged buyouts.
Other financial support	The managing director and the sales and marketing director provided financial support by lending the company money. The company is also considering additional funding from private sources.
Other non-financial support	The IED played a crucial role by bringing the WBO model to RBT Technologies' attention. The IED provided training, seminars, and workshops, offering relevant information about the WBO model, associated rights, responsibilities, and guidelines on ownership culture.
Transaction costs	None
Public national financial support	None
Public EU support	None

Source: Author, based on RBT Technologies interview.

6.2.4 Lessons learned

The lessons learned can be summarised as follows:

- Based on the interview, the most important step for successfully carrying out a WBO is obtaining as much information as possible about the process. Business owners, managers and workers will have more trust when they have access to external expertise that is deeply knowledgeable about the most important technical and legal issues, and able to provide national and international examples of WBO good practice.
- Apart from financial and technical support, it would be beneficial to have an experienced expert, institution, or organisation guide the company step-by-step and provide relevant information during the restructuring. Companies should take the time to gain as much knowledge as possible regarding EO and different WBO models, and to regularly address concerns or fears that arise in the process.
- One of the most important things for a successful WBO process is informing and educating the banking sector about employee ownership, including the ESOP model. RBT Technologies' experience is that bankers are not well informed about WBOs. This can be seen by the fact that one of the first questions they often ask is whether the model is legally supported or regulated. The fact that DBS is a positive exception is probably connected to its history of being a cooperative bank. The IED played an important role in establishing a good relationship between RBT Technologies and DBS, organising numerous meetings between the two, during which the bank's questions could be answered. RBT Technologies representatives said that while banks will always have some reservations due to their risk management, excessive conservatism based on a lack of knowledge about WBOs could be addressed by relevant institutions or agencies.

6.3 Company #3: Domel[47]

The Domel Group was organised into a holding company by a WBO that occurred almost 30 years ago. Domel Holding is a d.d. company, founded in 1998. It is the 100% owner of Domel d.o.o., founded in 1946 (originally as the cooperative Nika), which is the largest company in Domel Holding in terms of production and generation of turnover and revenue. It accounts for 90% of Domel Holding's revenues and is also the largest company within the holding in terms of employees. Domel Holding covers the head office services such as marketing, sales, procurement, accounting, HR, and IT, while all operations, production, development, technology and quality assurance are in the domain of Domel d.o.o.

For easier and more efficient coordination and management, Domel d.o.o. is organised into seven business units that cover specific market niches or segments. Domel d.o.o. currently employs around 1 350 people in Slovenia. Domel Holding is owned by its active employees, former employees, and retired employees. It currently has around 620 owners, of which approximately 300 are active employees, and 320 former employees. In total, Domel has slightly less than 1 500 employees.

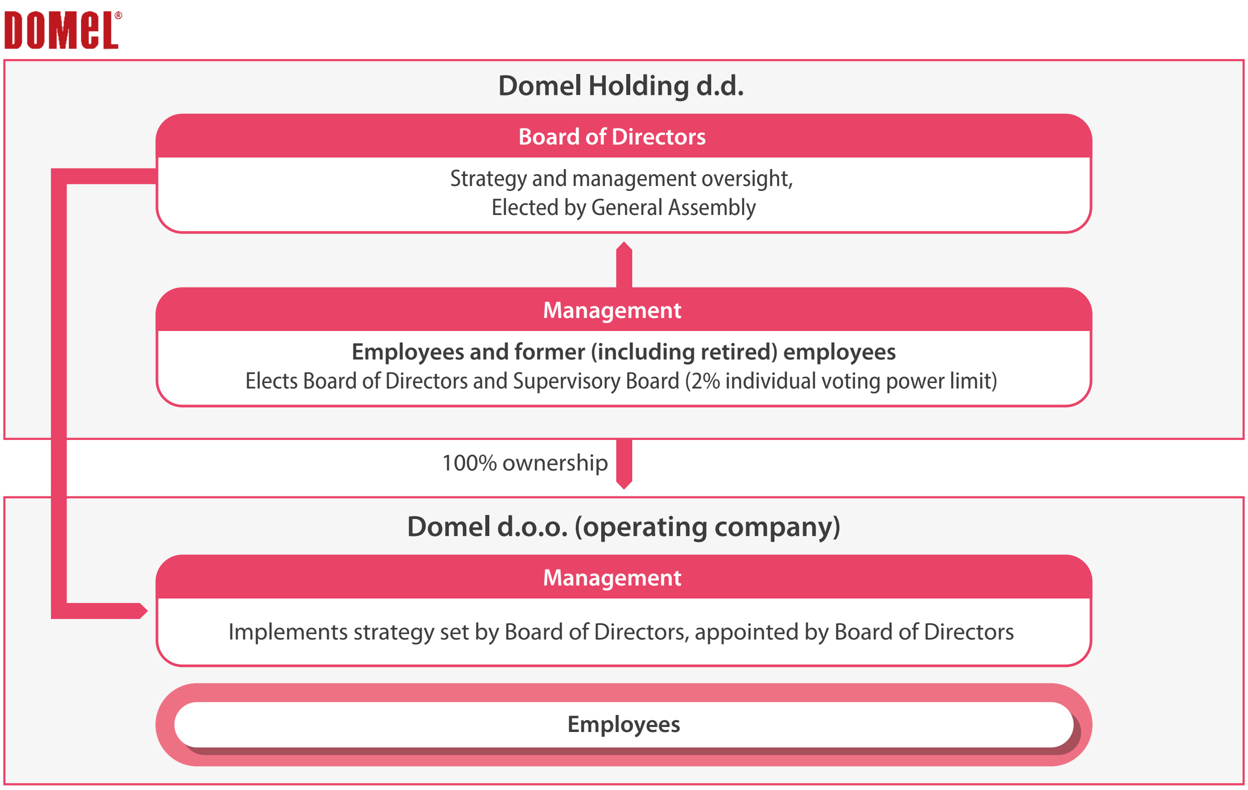
47 The interview with Domel d.o.o.'s current managing director was conducted by the IED in 2023.

6.3.1 Reasons for the WBO – needs and preconditions

Domel d.d. was founded in the 1990s, after the end of post-Communist privatisation/denationalisation in Slovenia, when state-owned enterprises were opened up to private investment. It was formed from an authorised company, which was an intermediate link, in which then employees deposited the ownership certificates issued during privatisation. The fact that the transition to employee ownership in Domel d.d. began during the Slovenian denationalisation was crucial. The politics of the time were supportive of various forms of EO. An institution that would have potentially provided support in the process was the Association of Small Shareholders. However, the government failed to establish a sustainable model (e.g. something that would resemble the ESOP model), and rather opted for privatisation via ownership certificates, leading to direct shareholding by workers.

With ownership certificates, Slovenian workers could invest some capital in the newly privatised companies and thus acquire a stake in them. This would be difficult to repeat today in such a form or on such a scale. At that time, however, practically all workers had the opportunity to invest their certificates in the company where they were employed. Some companies, such as Domel d.d., understood that it was important to explain to the employees the strategic vision behind this. Domel's vision was to pursue the direction of independence. At the time, over 1 300 ownership certificates of natural persons were filed in Domel Holding. The holding company had over 50% of shares in Domel, which at the time was still a d.d. These were the key moments that enabled Domel Holding to be legally established as a d.d. In the period from 1998 to 2009, Domel Holding then pursued a strategy of buying back Domel d.d.'s remaining shares from the state and the private funds that had taken a share of the company during denationalisation. By 2009, Domel Holding d.d. became the 100% owner of Domel d.d. and in 2010, Domel d.o.o. was established.

Figure 7: Governance structure of Domel d.o.o.



Source: Author.

In Domel Holding, the main motive behind the WBO was to prevent a hostile takeover and maintain the company's independence. In the middle of Domel d.d.'s ownership transformation, which occurred hand-in-hand with the Slovenian transition, a competitor from the USA became interested in purchasing the company. This was expected to lead to part of Domel's vacuum cleaner motors programme being merged with a company in Czechia. The likely negative impact on employment in Železniki, was recognised as a great risk. To prevent this hostile takeover, some of Domel's leaders and senior managers accumulated the necessary capital by combining all their ownership certificates. In the process of raising capital to defend against the hostile takeover, workers also received help from a larger private business, which provided some debt capital. The main goal was to keep the company employee owned.

6.3.2 WBO description

Domel Holding's articles of association indicate the idea of involving employees in the company's ownership structure and pursuing the idea of diversification of ownership. The limitation placed on voting rights prevents excessive concentration, or ideas of a management buyout. The articles also lead in the direction of a permanent increase in the value of the company's capital and of providing quality jobs, which includes future generations. Domel's values recognise and specifically state that its employees are its most valuable asset. Furthermore, Domel's mission statement likewise places great emphasis on keeping jobs in the company's hometown.

Every employee who has been with Domel for more than two years can become a shareholder in Domel Holding. In the past, a share buyback instrument was in use that temporarily placed the repurchased shares in a fund of the company's own shares, before selling the shares to the company's employees. The management would buy back these shares only with the authorisation of the general assembly, and with the sole intention of selling them to the company's employees. The company's rules on how to sell these shares to employees are strategically designed to prevent a concentration of shares. The rules follow the logic of first involving the younger employees who are not yet shareholders. Thus, these employees are the first to be given the opportunity to purchase the shares. In the second phase, the employee shareholders with a small number of shares who would like to increase their stake (up to 1%) are given the opportunity to purchase shares. Only in the third step do the employee shareholders, who own more than 1% but less than 2% of shares, get the opportunity to purchase additional shares. Any purchase above 2% must be approved by the supervisory board. The purchase of shares is financed exclusively from employees' own funds. Experience has shown that the employees who opt for share purchase are typically those who have already solved their living situation/housing problem and started a family. Based on the 2022 round of purchases, buyers are key personnel who are already occupying important positions, managers at the second and third levels, i.e. key, promising employees expected to continue driving Domel's success in the coming years. Currently, approximately 25% of the employees of Domel d.o.o. own a stake in Domel Holding.

Over the years, most of the dispersed shareholders of Domel Holding have sold their shares. In particular, the number of shareholders decreased considerably when it became necessary to open trading accounts, as this resulted in additional costs, which proved too high for shareholders with a very small number of shares. There is no systematic solution to the succession problem in Domel, resulting in declining ownership rates among the employees.

6.5.3 What was the impact of the WBO

Our interview suggested that the employees' greater sense of belonging is one of the advantages of EO. Moreover, employee-owners are more ambitious and engaged at work, care more about customers and make better financial decisions. The combination of ownership and employment has the effect of making the long-term outlook of the firm and employment more stable. EO is patient and does not force the management in the direction of rapid profits but is focused on long-term and sustainable growth. Employee-owners are not primarily focused on chasing their annual dividends but prioritise the growth of the company and its value.

Compared to employee-owners, conventional shareholders would have significantly higher dividend expectations. In contrast, the owners of Domel Holding receive much less through dividends than what is spent on investments and employees. From the pay-out point of view, at Domel Holding, the reward for business performance is higher than the dividend. This would certainly be different if the owner was a bank or a financial capital owner. Notably, the employee-owners of Domel Holding allow for a lot of investment in development, new technologies and new projects. In this way, internal employee-ownership has a key influence on Domel's strategic direction. Due to its ownership structure, the company has significantly more freedom in its further development, e.g. setting a strategy, introducing new technologies. It can independently decide on development projects, direction and investment priorities, which is crucial. From this point of view, EO is also an important factor in securing jobs. As stressed by the company respondents, not every company takes care of employees as valued assets.

A major challenge for the company now, however, is its changing shareholder structure due to the ownership succession problem. Domel Holding's articles of association limit the concentration of ownership by limiting voting rights to 2%, thus maintaining diversification. However, with retirements, the proportion of retired shareholders has been increasing. Currently, around 300 shareholders who are still actively employed in the company, hold around 47% of the shares. The articles of association lack an instrument which would define that the owner is obliged to sell their shares within a certain time after leaving the company. Instead, the shares are increasingly understood by the owners as a kind of guarantee, savings and capital for retirement. The management is searching for a solution that would motivate the retired owners to sell their shares and, on the other hand, ensure that key employees continue to be included in the ownership structure.

Financial implications and role of additional funding

In 2023, Domel's WBO model was negatively affected by a change in the Act ZDDPO-2 on Corporate Income Tax (Income Tax Act[48]), which interprets stock buybacks as a disposal/divestment of capital, which is taxed as capital income. For the owners who have held their shares in the company since the time of ownership certificates or for more than 15 years, this means that they are unfairly taxed, since the capital gains tax that that would be realised through the sale to an external buyer would be lower than the capital income tax (in Slovenia, after 15 years, the capital gains tax rate is 0%).

When the shares of Domel d.d. were being purchased by Domel Holding from foreign funds and other stakeholders, the WBO was supported by a private company, Kolektor, which helped with a private loan to the company to buy back shares (the rest of the shares were purchased directly by the employees, who raised personal loans and invested personal assets). This was around 2006, when the decision was made to buy back the company's remaining outstanding stock and the financing was secured through loans. The management at the time assumed the responsibility both for obtaining credit and repaying the loans. At the time, i.e. the period before the banking crisis of 2008 and 2009, bank support existed and financing for such purposes was available. Nowadays, this might be much more difficult.

If Domel Holding was to implement the ESOP model and use it to consolidate shares among the current generation of employees, it would first need to address the challenge of financing. New legislation with potential tax incentives and financial institutions providing debt capital would be key in this case. The importance of tax incentives to increase demand for the ESOP model on the part of companies such as Domel Holding was highlighted in the interview.

48 Act ZDDPO-2 of 26 October 2006 on Corporate Income Tax (Zakon o davku od dohodkov pravnih oseb). Accessed on 3 September 2023, available at: http://pisrs.si/Pis.web/pregledPredpisa?id=ZAKO4687.

Table 5: Domel's financial structure.

% workers' share capital at the beginning	Workers raised personal loans to finance part of the WBO
% of employees included	Nearly 100% of workers were included in the WBO. Almost 30 years since the WBO, only 24% of current employees are owners (succession problem because workers are direct shareholders, ownership is not arranged through a dedicated legal entity, as in the ESOP model)
% of ownership in the hands of employees	• Approx. 46% of current employees. • The rest is in the hands of former employees.
Equity	A minor share of the WBO was financed through equity investment by the workers, who raised funds by taking personal loans
Debt financing	In the process of raising capital to defend against a hostile takeover, Domel received help from a larger private business, which provided most of the capital for the WBO
Other financial support	Workers received help from a larger private business during the capital-raising process
Other non-financial support	None
Transaction costs	During the WBO, there were no clear transaction costs; however, maintaining worker ownership incurred transaction costs because Domel must buy back shares of departing worker-owners, which is heavily taxed.
Public national financial support	None
Public EU support	None

Source: Author, based on Domel interview.

6.3.4 Lessons learned

Specific lessons learned can be drawn from the case of Domel:

- Historically, the problem of ownership succession is one of the main causes of the decline of employee ownership. This issue also affects Domel Holding, which currently has no guarantee in its articles of association obliging the owner to sell their shares upon retirement or departure from the company. In this way, no turnover of shares is guaranteed. A solution is required that would motivate the retired owners to sell their shares, and in this way enable new employees to enter the ownership structure.
- Another lesson on the limitations of the current WBO model is in its capital-raising constraint. A gap in Domel Holding's current system is the scenario in which there would be a greater need to raise capital, i.e., a larger capital increase of several million euros. That would be difficult to achieve within the limits of the current ownership structure. In principle, due to its commitment to internal ownership, Domel Holding would find it difficult to accept a new, powerful external investor. Thus, the current model limits the company to natural growth that can be maintained through its own resources.

- The third important challenge is the changeable nature of legislation in Slovenia, for example, the Income Tax Act, which has already affected Domel twice, in 2020 and 2023. Domel's WBO model was made more expensive from 1 January 2023, when an article interpreting stock buybacks as a divestment of capital re-entered into force.
  - In the long term, the developing legal framework could potentially help Domel solve its ownership structure problems. Nevertheless, everything depends on the micro conditions within new laws and the political continuity. This would carry risks, since the projects of ownership transfer are not formed with a short-term perspective, but for a longer period. In the view of interview respondents, the adoption of anticipated legislation should have a strong political consensus, so that the law itself would not be radically interfered with during the next change of government. It is also important to shape legislation in a way that ensures the sloESOP model is not misused, and that it encourages the entry of employees into the ownership structure.
  - Based on the interview, the new law that is being drafted to include tax incentives for owners, financing and financiers could provide an interesting legal environment, especially for newly emerging ownership structures, i.e. SMEs in which the owner decides to transfer ownership to their employees, and where this step is feasible, particularly from the point of view of capital. An example is a family business without a successor or a clear commercial vision. In such cases, the draft law could be an excellent environment and legal basis for transfer of ownership to employees and will potentially drive success stories.

6.4 Company #4: Etiketa[49]

etiketa

Etiketa tiskarna d.d. was founded in 1960 as a ribbon factory, but due to the needs of the textile industry at the time, it also began printing on textiles and over the years on various other materials. The weaving mill was eventually discontinued as unprofitable. The printing department was organised into three sections: graphics (self-adhesive, cardboard and paper labels, foils), screen printing (transfers, sheets of stickers) and textiles (decorative and textile ribbons, sew-on labels). Investment in the latest hardware enables Etiketa to compete in demanding markets.

Today, the company exports to 26 countries around the world and cooperates with global retail chains such as Marks & Spencer and H&M, sportswear giants such as Nike and Adidas, as well as many companies from the pharmaceutical and food industries.

Etiketa tiskarna d.d. is one of the many companies in the last decade to struggle with the consequences of globalisation and technological innovation, as well as problems of transition. So far, it has met these challenges successfully by following market guidelines, monitoring trends, developing and ensuring rapid response times. Its mission is to remain the leading Slovenian printed label company, by introducing modern printing solutions50. Etiketa considers itself a family business and most of its employees are descendants or relatives of previous employees, which enables them to pass values and knowledge from generation to generation. The company also mostly employs local people and is very important in the local community.

49 The interview with Etiketa's current general manager was conducted by the IED in 2023.
50 Kokalj, Primož. 2013. *Učinki uvajanja informacijskega sistema v podjetju Etiketa tiskarna d.d.: diplomsko delo*. Ljubljana. University of Ljubljana. Available at: http://dk.fdv.uni-lj.si/diplomska/pdfs/kokalj-primoz.pdf, accessed 28 June 2023.

6.4.1 Reasons for the WBO – needs and preconditions

Etiketa tiskarna d.d. is a privately owned joint-stock company. Internal ownership stems from Slovenia's transition period, when the state owned approximately 50% of the company, while the rest was mostly owned by its workers through ownership certificates. The transition brought with it many 'vultures', tycoons and rampant privatisation supporters, who wanted to take advantage of the situation. The company's managing director, in contrast, disagreed with such an approach, believing it was unfair to the workers who had built the companies. Instead, he discovered that there was a legal way to give Etiketa's employees the possibility of ownership, by creating a fund of the company's own shares. For that, he first needed to get the support of the company management and then the support of its employees. Two managers opposed the idea, one believing the employees would not support it, while the other was more favourable towards a managerial buyout. They both soon left the company, while two other managers were supportive of the plan and gave it the green light. After several discussions within the company, the employees became convinced too.

Etiketa also used the WBO as a tool to protect itself against a hostile takeover. Years ago, the firm developed a product that attracted attention in foreign markets. A multinational company made Etiketa a serious offer to buy the company and its innovation. However, believing the new owner would probably close half of the company immediately, Etiketa declined the offer. Instead, it used its existing ownership structure as a shield, since the owners understood the potential negative consequences of the takeover for the local community. Since then, the company has been very successful and is now at a global peak in terms of its range of products.

6.4.2 WBO description

Etiketa implemented its WBO by buying shares owned by the state and other shareholders, until over 90% of ownership was distributed internally among the existing workers. Each of the workers needed to take out a personal loan (with the help of the company) to buy the shares, the price of which was relatively low at the time. The state expressed no particular interest in keeping a stake in the company. The employees, on the other hand, who built the firm themselves, did not want to give the company away. They also knew that the WBO would help protect their jobs in the future.

This system worked without a problem for 10 years, until there was a large wave of retirements of the employees who obtained company shares via ownership certificates. The percentage of workers who had retired kept growing, and by 2018/2019 more than 50% of Etiketa's shareholders were external. Nevertheless, as ex-workers most of the external shareholders still feel part of the company and adhere to the agreement that if they sell the shares, they first offer them to the internal fund. Nevertheless, this agreement largely relies on a moral commitment, as there is no legal or statutory protection in place to ensure it functions as originally intended. Although most former employees still respect the commitment, there was a period when brokerages were offering a higher price for the company's stock than Etiketa. At that point, some employee-owners sold their shares externally until Etiketa matched the price. Furthermore, a real risk exists that once the older retirees pass their shares on to their descendants, the attitudes of external shareholders will change. If this happens, the purchase price in the internal stock fund will increase and because the shareholders cannot sell below the purchase price, that stock will become too expensive for new employees to buy. This is one of the reasons that not all the employees are included in Etiketa's current ownership model. It is also one of the more common reasons for the degeneration of workers' ownership, known as demutualisation.

The last time there was a chance to buy shares from the internal fund, during 2017/2018, a problem related to the company's younger employees became apparent. Since they usually have lower salaries, they do not express much interest in investing in the company's shares. However, the management is constantly considering ways to encourage new people internally to become part-owners. Currently, more interest in internal ownership can be found among managers who recognise its value. Since the current system is prone to increasing the concentration of ownership in the hands of managers, the management believes it is important to find a way to keep including other employees in the ownership structure.

Etiketa holds approximately 1 700 treasury shares currently, out of a total of around 252 000. To consolidate worker ownership, the company has been buying back shares in accordance with Article 247 of the Slovenian Companies Act. It is also planning to raise the value of dividends by a few cents, which indicates good business. Not much trading was taking place at the time of the interview, with the exception of some inheritance cases, or rare cases of serious illness, when people have to sell stock out of necessity. Nevertheless, the management is aware that there will come a time when the shareholders want to sell, especially if Etiketa can offer a higher price than it does currently. The company's current approach is to wait, which is why it advises people not to sell, partly because of recent changes to the Income Tax Act. Since January 2023, stockholders who sell their stock back to the company are subject to 25% tax. Although a constitutional review of this law is underway, there is a possibility it will remain unchanged. According to the Etiketa interview, a solution to create sustainable worker ownership structures should be reached at governmental level. In 2025, Etiketa initiated a WBO of outstanding shares through the Slovenian ESOP model.

6.4.3 What was the impact of the WBO

Worker ownership plays a large role in how Etiketa is run. An example of this is the COVID-19 pandemic, which posed a big challenge to companies around the world. Football ceased during the pandemic, reducing Etiketa's business to almost zero overnight. Etiketa decided to use all the subsidies from the state to furlough its employees on 80% salaries. This decision can be attributed to internal ownership, where every worker matters. However, as the company used the state subsidies, it was not allowed to pay out dividends. There was a lot of concern over whether the shareholders would sell their shares. Additionally, Etiketa suffered a large loss during that period, especially in 2020. On the other hand, in 2021, when businesses started opening again after the pandemic, it proved very valuable that the company had kept all its employees, who were then ready to work. During the pandemic, Etiketa also had to make some internal arrangements and adjustments to supply parts of the Slovenian economy that were flourishing (e.g. the food industry). Notably, the employees saw this as a collective challenge and acted accordingly. This is yet another example of how much insider ownership means to the company. Employee-owners know they are working for themselves and are willing to play an active part in the company's success and survival. However, it is also important that employees understand the financial needs of the firm, especially in the printing industry, where investments in new machinery are large and continual.

Financial implications and role of additional funding

In considering a leveraged buyout, Etiketa said that every loan is reflected in the balance sheets and affects the company's creditworthiness. This highlights the problem of debt-equity ratios in leveraged buyouts and how that affects the perception of the business by lenders, partners, and clients. Based on the interview, there is a need for accessible EU or state funding to stimulate companies to decide on leveraged WBOs, e.g. off-balance sheet financing structures such as project financing or asset-based lending.

Table 6: Etiketa's financial structure.

% workers' share capital at the beginning	None
% of employees included	48%
% of ownership in the hands of employees	• Approx. 40% of current employees. • Approx. 40% of retired employees. • Approx. 10% non-retired former employees. • Approx. 10% of heirs and other dispersed external owners, who are not retired.
Equity	WBO was financed through equity investment by the workers, who bought shares by taking personal loans with the help of the company
Debt financing	As indicated in Etiketa's interview, every loan is reflected in the balance sheets and affects the company's creditworthiness, highlighting the problem of debt-equity ratios in leveraged buyouts, and how that affects the perception of the business by lenders, partners and clients. There is a need for accessible EU or state funding to stimulate companies to decide on leveraged WBOs, e.g., off-balance sheet financing structures such as project financing or asset-based lending.
Other financial support	None
Other non-financial support	None
Transaction costs	During the WBO, there were no clear transaction costs; however, maintaining worker ownership incurs transaction costs, because buying back shares of departing worker-owners is heavily taxed.
Public national financial support	None
Public EU support	None

Source: Author, based on interview with Etiketa.

6.4.4 Lessons learned

Even though Etiketa's management initially had some reservations about the sloESOP model, they now believe it successfully addresses all the main challenges the company is facing in relation to its current model. These are the ownership succession challenge, the desire for broad-based ownership, and the risk of a hostile takeover. In 2024, the management decided to implement the ESOP model to address the challenges. That process is ongoing.

One of the advantages of the sloESOP model is that it is by legal default a broad-based ownership scheme, which provides the right to include all employees and requires no personal investment from the workers. In this way, it prevents discrimination between employees based on salary or personal funds. All eligible employees are given the opportunity to become owners through a special purpose cooperative. This helps promote a sense of ownership and engagement among the entire workforce, regardless of workplace hierarchies or functions. By extending ownership to all employees, sloESOP seeks to align the workers' interests with the success of the company, giving them a stake in its performance.

Etiketa has already been a target for a hostile takeover and continues to receive offers to sell the company. It remains vulnerable in this sense, as long as the ownership of its business is organised around the model of direct individual shareholding. The ESOP, on the other hand, can act as a 'shield' from hostile takeovers since it allows collective defence and requires a democratic majority for sell-outs. In addition, the proposed ESOP legislation in Slovenia anticipates a tax-clawback on the incentives attained in the WBO process, which could further disincentivise takeovers and degeneration of worker ownership.

07 Synthesis of interviews and case studies

Based on the insights gathered from stakeholder interviews in Slovenia, the analysis of the existing institutional setting facilitating WBOs and the interviews in the case studies included, it is evident that WBOs face significant challenges. Findings from the research point to several key issues in the Slovenian context:

Access to finance	• Challenges to accessing debt finance from banks include low returns, perceived risks, inadequate collateral, banks' internal policies restricting the financing of leveraged buyouts and limited understanding of modern WBO models. • There have been no financial instruments available to any WBOs in Slovenia identified in this study to support workers pursuing a WBO. A clear need has been identified for suitable institutional financial support and for innovative solutions to deal with leveraged self-financed WBOs. • The financial sector could open the door to national promotional banks to finance certain ventures in the social economy. • Case studies indicated the importance of additional financing options for WBOs provided by the EU or state funds (including off-balance sheet financing structures such as project financing or asset-based lending), given the conservative attitude of many commercial banks towards WBOs. • Well-developed private instruments could provide the required flexibility in WBO financing and could also serve as an additional layer of guarantee for debt capital provided by commercial banks.
Legislation	• The lack of a supportive infrastructure and outdated legislation hampers the promotion, incentivisation, and facilitation of WBOs. There is currently no legislation incentivising the implementation of sustainable and inclusive WBO models. • Lack of a regulatory framework limits the banks' ability to finance WBOs: - SID Bank has expressed concerns related to its inability to finance or support working capital loans if cash has previously been used for a WBO, due to strict limitations. The lack of a regulatory framework prevents other institutions from effectively facilitating WBOs.

Technical assistance	There is a notable lack of specialised expertise in the WBO field, including legal, financial, and organisational expertise, with few existing organisations researching and supporting WBOs. Even if well-organised, they need further support to scale up and provide effective policy advice.
Advocacy issues	• There is widespread mistrust and a negative attitude towards WBOs due to the historical experience of socialist self-management, especially among business and institutional stakeholders. • There is a lack of organised and systematic advocacy on WBOs and EO, including in the form of dedicated organisations and specialised services, which could inform the relevant stakeholders and importantly impact both the demand for WBOs in the business community and the supply of financial instruments among the relevant financial institutions. • Advocacy among institutional actors and relevant WBO stakeholders, such as employers' organisations, trade unions and professional associations, is thus crucial. • Finally, there seems to be no real discussion on connecting WBOs to sustainable development goals (SDG) and ethical finance through environmental, social and governance (ESG) principles. WBOs promote social sustainability through preservation of jobs and local communities, foster employee empowerment and participation in decision-making processes and enhance corporate governance through the involvement of workers in the management and ownership of companies.

08 Potential to use ESF+ and other EU resources in support of WBOs

8.1 Potential use of ESF+ financial instruments

Slovenia has mainly used European Social Fund (ESF) support for skills and inclusion to invest in skills and create opportunities in the labour market. Inclusion means helping disadvantaged people and those facing obstacles to employment to obtain access to the labour market, by improving their skills and qualifications. The ESF has been used to address skilling, upskilling and reskilling, as well as better functioning of social and labour market institutions. So far, no ESF / ESF+ instruments have been used to support WBOs in Slovenia.

Based on the interviews conducted for the purpose of the study, there is a need for accessible EU or state funding to stimulate companies to decide on leveraged WBOs, e.g. off-balance sheet financing structures such as project financing or asset-based lending. New ESF+ financial instruments tailored to the financial needs of WBOs can be introduced. Dedicated grant schemes, credit lines, and other tailored loan products could ease existing financial constraints.

To address the strict limitations imposed by financial institutions, the Slovenian managing authority (MA) can establish an ESF+ financial instrument that would lead to risk mitigation measures for WBO financing. This could involve exploring options such as loan guarantees, syndicated lending or establishing specialised funds that provide additional security to financial institutions when financing WBOs. By reducing the perceived risks associated with WBOs, financial institutions may become more willing to engage in WBO financing.

SID Bank indicated market interest for developing WBO financing instruments, while highlighting challenges linked to the existing ESF+ infrastructure due to the complexity of the process, lack of institutional expertise on the subject and the perceived lack of demand for WBOs. ESF+ resources could play a role in simplifying access to WBO financing instruments to spur interest among national financing institutions.

8.2 Exploring possibilities of combining financial instruments and grants

The managing authority in Slovenia has so far not used ESF+ resources to support WBOs, either through grants or financial instruments. Case studies and stakeholder interviews indicate the importance of supporting WBO financing with a combination of different instruments, especially when it comes to more substantial financing for medium-sized and large enterprises undergoing a WBO. A grant can finance technical assistance and non-financial services.

8.3 Potential involvement of EIB Group via EU-level financial instruments

The following section presents an overview of the possible avenues for potential involvement of the EIB Group in this area:

- A clear WBO policy needs to build sustainable employee ownership in the Slovenian economy. A certain type of WBO can be employed to promote the EU sustainability strategy that includes UN sustainability goals, which include reducing working poverty, sustainability, inclusive growth and decreasing economic inequality[51]. The assistance of the EIB might be explored by promoting financial instruments that could encompass WBO, among other areas, and by developing eligibility criteria for what can be considered a WBO.
- Through intermediated lending, the EIB can cooperate with financial institutions to design specialised financial products, considering limited capital and collateral and associated risks. This would broaden access to finance for interested parties in the WBO sector. EIF involvement could build on the positive experiences with the EaSI guarantee products, now continued through the guarantee instruments under the InvestEU SISW. These products are also available to financial intermediaries operating in Slovenia and although not focused on WBOs could also be used. Other country cases from France, for example, show that default rates of WBO operations in the form of cooperatives are very low, which could be an effective way of reducing the overall risk profile of the EIF portfolio.
- Awareness and knowledge exchange should be promoted. The EIB together with the European Commission (EC) and Directorate-General for Employment, Social Affairs and Inclusion can play a vital role in promoting awareness and knowledge exchange of WBOs in Slovenia and in the EU through the fi-compass platform. This can be achieved through targeted communication campaigns, workshops and conferences that highlight the benefits, success stories and best practices of WBOs. Through financing and visibility, the EIB Group can provide support for the development of advocacy services and organisations focused on WBOs. By raising and promoting awareness among various stakeholders, including employees, companies and policymakers, the fi-compass platform[52] could help to establish a conducive environment for the adoption of WBOs and foster a culture that recognises their economic and social value.
- Technical expertise needs to be strengthened among relevant stakeholders. Possible EIB involvement in providing technical assistance on WBO finance to the national promotional institutions and other potential financial intermediaries in the EU Member States (e.g. SID Bank in Slovenia), was noted as being beneficial.

51 Here, the question of the EO model is of great importance – while some WBOs build sustainable, inclusive, and democratic EO structures, WBOs may also be used as a tax-advantaged remuneration plan or for a different objective, which would not necessarily help to achieve SDGs.
52 fi-compass, *Home page*. [Online]. Accessed on 27 September 2023, available at: https://www.fi-compass.eu/.

8.4 Practical hints for managing authorities

- Under the current Partnership Agreement on EU funds 2021–2027, the inclusion of WBOs into a policy agenda would help promote Policy Objective 1[53], Policy Objective 2[54], Policy Objective 4[55], and Policy Objective 5[56]. While EO could substantially contribute to increased national competitiveness, the green and locally responsible transition, inclusive growth and development of rural areas, WBOs remain outside the policy agenda in Slovenia. The managing authority should consider exploring whether and how existing and/or planned financial instruments could be used to support WBOs.
- Given the limited specific expertise on WBOs in Slovenia, national and managing authorities could open a grant programme that would finance an empirical study into the market demand for WBOs and, in the second stage, support the development of technical assistance expertise to help create WBO infrastructure. This can be achieved by providing funding or incentives to encourage the expansion of advisory services and the development of comprehensive support programmes for WBOs. Managing authorities and national authorities could also work with local expertise organisations to ensure specialised knowledge on WBO financing to existing financial institutions. This can be done through training programmes, workshops, or knowledge-sharing platforms that focus on the specific challenges and opportunities associated with WBO financing. By equipping relevant stakeholders with the necessary skills and understanding, the authorities functioning in the national policy environment can help overcome the financial, organisational and legal challenges associated with WBOs.
- The EaSI guarantee is an example of a suitable type of financial instrument now continuing under the InvestEU programme that could be adopted in Slovenia and other countries to support WBOs. The sloESOP model is for leveraged and gradual WBOs, meaning there could be even greater multipliers for the funds dedicated to this model in terms of the number of companies converted to partial worker-ownership through a WBO. It would be important to carefully select and educate the financial institution receiving such an instrument, since there is no specialised WBO expertise among Slovenian financial institutions.
- Slovenian government institutions, especially the Ministry for Finance, MGTS, Ministry for Labour and MSP, which are all supportive of employee ownership, should start a discussion with relevant stakeholders such as the European Commission and European Investment Bank on what kind of institutional support the EU could offer national governments to promote WBOs.

53 Policy objective for a more competitive and smarter Europe by promoting innovative and smart economic transformation and regional ICT connectivity.

54 Policy objective for a greener, low-carbon Europe transitioning towards a net-zero carbon economy and resilient Europe by promoting clean and fair energy transition, green and blue investments, the circular economy, climate change mitigation and adaptation, risk prevention and management, and sustainable urban mobility.

55 Policy objective for a more social Europe implementing the European Pillar of Social Rights.

56 Policy objective for Europe closer to citizens by fostering the sustainable and integrated development of urban, rural and coastal areas and local initiatives.

09 Suggestions and next steps

Next steps to support the development and implementation of WBOs in Slovenia should focus on the areas highlighted in the following sub-chapters:

Engage with the government and policy authorities

Policy stakeholders are unaware of the socio-economic benefits and practical use of WBOs. Based on the current state of WBOs in Slovenia and the lack of supporting infrastructure, the first step is to inform policymakers and build a regulatory environment. Collaboration with the Slovenian government and policy authorities is essential to create an enabling environment for WBOs. The EIB Group and Commission could actively engage in dialogue with relevant government bodies to advocate for the establishment of regulatory and legal frameworks that facilitate WBOs. This can include recommending tax incentives (especially for sellers engaged in a WBO, and for the source of capital, which is tax incentivised in leveraged buyouts such as ESOPs in the USA, and EOTs in the UK, where companies' contributions to the special ownership vehicle is tax-deductible). It can also include simplified administrative procedures and supportive legislation to incentivise WBOs and reduce barriers to their implementation.

Advance stakeholders' know-how of WBOs

Relevant stakeholders seem to be under-informed about the contemporary state of WBOs and the opportunities a WBO introduces for businesses and financial institutions. Technical knowledge about WBOs and about the financial instruments, which have proved effective in international best practice, is low among institutional stakeholders. After the preliminary infrastructure is established, it is vital to focus on advocacy and communication. It is important that know-how is transferred to all the relevant stakeholders and that national expertise is developed.

Develop WBO-specific financial products with potential ESF+ participation

Create financial products for WBOs to support financing by private banks and capital markets. There are no specialised financial instruments supporting WBOs and there are very few established instruments that would be useful in facilitating a WBO. Support through the Slovenian ESF+ programme should be explored, including possible combination with grants.

Establish a Marcora-like mechanism[57] to support WBOs in times of crisis in Slovenia

Based on successful practices in Italy, Spain and France, a mechanism supportive of WBOs in times of crisis would allow workers facing the risk of unemployment due to company closure to capitalise on paid-out unemployment benefits for up to two years. The state, in collaboration with relevant stakeholders, could create a dedicated fund to co-finance worker buyouts (in Italy, this is Cooperazione Finanza Impresa). This mechanism could serve as a safety net for workers facing potential job losses, fostering a more supportive environment in which WBOs could thrive.

57 A recently published policy proposal calls for a standardisation of the Marcora principles and adoption in the EU space: Lexxion, *Mercora for Europe: How Worker-Buyouts Might Help Save Jobs and Build Resilient Businesses*. [Online]. Accessed on 12 December 2023, available at: https://estal.lexxion.eu/article/ESTAL/2021/1/8.

Unify WBO financing with ESG criteria to advance the appeal of WBOs

Developing environmental, social and governance (ESG) criteria for WBO financing could be helpful. Despite the attention received by ESG financing, no substantial connection has yet been made between WBO financing and ESG. EU and national stakeholders could collaborate to establish clear and measurable ESG criteria that would include WBO financing. It is important for these criteria to consider the unique characteristics of WBOs and emphasise factors such as employee welfare, community impact, environmental sustainability and ethical governance. Creating standardised ESG criteria can provide a framework for evaluating the ESG performance of WBOs and guide financial institutions in making sustainable investment decisions. The Commission could propose fiscal or other incentives around well-regulated ESG financing such as tax breaks, preferential terms, lower interest rates, grants, or subsidies for investors that create opportunities for relevant ESG standards to develop (e.g., through broad-based WBOs). Incentivising ESG integration and establishing reporting requirements will motivate financial institutions and WBOs to improve their environmental, social and governance practices, leading to more sustainable and socially responsible outcomes.

Advocate for regulatory changes

The Commission could collaborate with financial institutions and policymakers to advocate for regulatory changes that encourage the financing of WBOs. This could involve addressing the negative perception of internal buyouts and management takeovers and highlighting the success stories of WBOs in Slovenia. Promoting a favourable regulatory environment might increase the willingness of financial institutions to develop products and allocate funds for WBO financing.

10 Conclusion

In conclusion, the findings from stakeholder interviews, institutional analysis and case studies provide a comprehensive overview of the challenges and potential for supporting WBOs in Slovenia. The report shows that while WBOs are a promising strategy for safeguarding jobs, boosting the local economy and improving corporate governance, there are several significant obstacles to their widespread adoption. These challenges include historical attitudes, regulatory gaps, financial constraints and lack of expertise. Nevertheless, recognition of the need and potential for WBO growth in Slovenia provides a basis on which targeted action can be taken to facilitate its success.

The proposed recommendations outlined in this country report provide a strategic roadmap for supporting the development and implementation of WBOs in Slovenia. These recommendations address critical areas such as policy advocacy, stakeholder awareness, technical knowledge enhancement, support of specialised advisory and advocacy services, financial instrument creation and integration with sustainable development principles. Actively engaging with policy stakeholders, informing them about the socio-economic benefits of WBOs, and advocating for regulatory changes, will pave the way for WBO integration. In addition, raising awareness among relevant stakeholders, sharing knowledge, and strengthening financial, legal, and organisational expertise can help create an informed and supportive environment in which WBOs can thrive.

The proposed measures also underline the importance of cooperation between different parties, including government agencies, financial institutions, advisory services, local stakeholders and EU institutions, which can help provide more unified guidelines on WBO models and financial instruments to assist stakeholders financing WBOs in Slovenia. The EU institutions could support the growth of WBOs in Slovenia by enhancing existing financial instruments, establishing a WBO-specific financial instrument, collaborating with local financial institutions, promoting awareness and knowledge exchange, supporting advisory services and engaging with the government and policy authorities. By implementing these recommendations, policymakers can contribute to the development of a thriving WBO ecosystem in Slovenia, fostering economic stability, preserving employment and empowering workers through ownership and participation in the companies they work for.

Ultimately, the successful implementation of these recommendations has the potential to transform the landscape of enterprise ownership in Slovenia. Through strategic policy adjustments, improved financial support and increased awareness, WBOs can become a viable and attractive option for companies facing challenges related to ownership succession, for job preservation and corporate governance. By integrating these recommendations into the broader policy framework, Slovenia can harness the untapped potential of employee ownership and create a resilient foundation for inclusive and sustainable economic growth.

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www.fi-compass.eu
contact@fi-compass.eu

European Commission
Directorate-General
Employment, Social Affairs & Inclusion
B-1049 Brussels

European Investment Bank
EIB Advisory
fi-compass
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg